LCBO

ANNUAL REPORT 2000-2001

Our sixth straight record year

The Annual Report

Under the *Liquor Control Act*, we are required to prepare an annual report to the Minister of Consumer and Business Services. The Minister submits the report to Cabinet and tables it in the Provincial Legislature. This document is first and foremost a formal record of the LCBO's financial performance for the past fiscal year; however, it also provides an overview of the Ontario beverage alcohol marketplace. We've tried to make the report easy to use and understand by using plain language and including a glossary of LCBO terms.

Contents

Members of the LCBO Board (during fiscal 2000-2001)

Andrew S. Brandt, *Chair and Chief Executive Officer*

John S. Lacey, *Vice Chair; Member, Audit and Governance Review Committee*

Thom A. Bennett, *Member; Member, Audit and Governance Review Committee*

R.A. (Dick) Dolphin, *Member; Chair, Audit and Governance Review Committee*

John C. Hopper, *Member*

Dr. Merle A. Jacobs, *Member*

Larry C. Gee, *Executive Vice President and Chief Operating Officer*

Chantal E. Haas, *Vice Chair; Member, Audit and Governance Review Committee (resigned February, 2001)*

Richard C. Ling, *Member (term expired September, 2000)*

Letter of Transmittal

Norman W. Sterling
Minister
Ministry of Consumer and Business Services

Dear Minister,

I have the honour to present you with the 2000-2001 Annual Report of the Liquor Control Board of Ontario.

Respectfully submitted,

Andrew S. Brandt
Chair and CEO

Credits

The LCBO wishes to thank the Office of the Provincial Auditor and the Members of the Audit and Governance Review Committee of the Board for their assistance in preparing this document.

Produced by LCBO Corporate Communications.

Financial information prepared by LCBO Financial Planning & Economic Development. French adaptation by LCBO French Language Services.

Ce rapport est également publié en français sous le titre : LCBO : Rapport annuel 2000-2001.

LCBO

The Source for Entertaining Ideas

Andrew S. Brandt
Chair & Chief
Executive Officer

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October, 2001

Dear LCBO Shareholder:

Entitled *Our Sixth Straight Record Year*, the 2000-2001 LCBO Annual Report describes how the LCBO transferred a record $850 million dividend to the province. That's an increase of $50 million over last year's record and $200 million more than in fiscal 1990-1991, my first year as Chair and CEO. It also marks the third straight year that the LCBO's total transfer – its dividend and provincial sales tax combined – has topped $1 billion.

Knowledgeable and helpful staff, store upgrades, in-store promotions, integrated marketing and other customer service enhancements, growing customer appreciation of premium products, a relatively stable and healthy economy, and excellent support from our suppliers were key factors behind this success.

We continued to outperform most comparable provincial liquor jurisdictions in both volume and revenue growth. We also outperformed the Ontario and Canadian retail sectors as a whole.

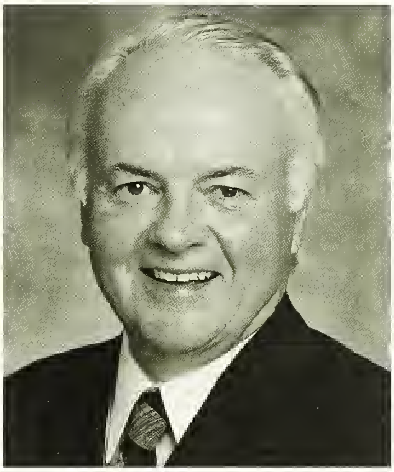
This year's Annual Report will help you evaluate our performance in the context of today's beverage alcohol marketplace, and show how far the LCBO has come in its drive to become Ontario's *Source for Entertaining Ideas*. We also highlight the many ways in which we help promote responsible drinking, including innovative advertising, strong strategic partnerships, and our Challenge and Refusal program. In fiscal 2000-2001, our employees challenged more than one million would-be customers who appeared intoxicated or could not provide valid ID and refused service to nearly 80,000.

When you read this report – or visit one of our stores – you'll see that we continue to improve our services and performance. With the support of the government, and a strong and experienced Board, we plan to continue that improvement next year and beyond. We expect to transfer a dividend of $875 million in fiscal 2001-2002, which would mark a seventh straight record year, and place us well ahead of the financial targets established for the first four years of our five-year strategic plan.

Sincerely,

Andrew S. Brandt
Chair and Chief Executive Officer

Message from the Minister



As Minister of Consumer and Business Services, with responsibility for the LCBO, I am pleased to provide you with the LCBO Annual Report for the fiscal year 2000-2001.

It is the mandate of the LCBO to provide excellent service and product selection to its customers; to maximize its dividend to the taxpayers and Government of Ontario; and to take a leadership role in promoting the socially responsible use of beverage alcohol. As this report documents, the LCBO fulfilled its mandate in these key areas in fiscal 2000-2001.

Customer service continued to improve, both in terms of the shopping environments and the products and services offered. Based on extensive market research, stores are being upgraded and more conveniently located.

Dividend transfers continued to grow this past year to a record $850 million, the sixth straight year the LCBO has achieved a record transfer. These funds – which do not include an additional $255 million in Provincial Sales Tax – help support social programs, services and capital projects that benefit all taxpayers.

The LCBO's commitment to social responsibility was evident on a number of fronts, including in-store programs to prevent sales to minors, people who appear intoxicated or those who would buy beverage alcohol for either of these parties; fundraising efforts on behalf of national and provincial organizations, including MADD Canada; innovative advertising campaigns against impaired driving; and support of municipal Blue Box programs.

The LCBO also worked with our government and the Ontario wine industry to secure greater access to European Union markets for award-winning Ontario Icewines. These outstanding products deserve greater exposure outside Ontario, as do domestic table wines, beers and spirits. Our government, the industry and the LCBO are pleased to have played a role in expanding export opportunities, and will continue to do so.

Taxpayers, citizens and users of government services expect – in fact, demand – that these services be delivered in the most efficient manner possible. With this in mind, our government has encouraged the LCBO to become more cost-effective and efficient, and this Annual Report shows the LCBO is responding.

As Minister responsible, I, along with my colleagues in government and staff, will continue to work closely with the LCBO Board, employees and trade partners to ensure this public asset is well managed and the Ontario public is well served.

Sincerely,

Norm. Sterling

Norman W. Sterling

Minister
Ministry of Consumer and Business Services

Chair's message

I am pleased to report that fiscal 2000-2001 was another great success for the LCBO – our sixth straight record year. We recorded the highest net sales in our history: more than $2.7 billion, 7.1 per cent higher than the previous year. That we achieved this growth over the millennium year – the celebration of the century – is a tribute to all LCBO employees, in stores and behind the scenes.

Thanks to their efforts, and aided by effective retailing and merchandising and a robust economy, we also recorded the highest dividend transfer in our history: $850 million to the provincial government. That is $50 million more than last year and $200 million more than my first year as Chair and CEO in fiscal 1990-1991.

We also collected $255 million in Provincial Sales Tax in fiscal 2000-2001, which means the LCBO gave its owners – the people of Ontario – a total of $1.105 billion. This is the third straight year our combined dividend and tax contribution has topped $1 billion.

I am also proud that our Retail employees challenged more than one million customers in fiscal 2000-2001, because they appeared to be intoxicated or could not prove they were of legal drinking age.

When I took the helm at the LCBO in 1991, it had just begun its transformation from control-oriented bureaucracy to progressive, customer-focused retailer. In the 10 years since, the LCBO has changed tremendously – for the better, I think our customers would agree.

A great deal of the credit goes to Larry Gee, our Executive Vice President and Chief Operating Officer. Since his arrival at the LCBO in 1988, Larry has imbued the organization with his passion for excellence in retailing, and has steadily guided it according to his vision of what the LCBO could be. Unfortunately for the LCBO, Larry is scheduled to retire in fiscal 2001-2002. We have begun the search for his replacement, with internal and external candidates to be considered, but his skill, vision and commitment won't be easily replaced.

We are fortunate to have a strong senior management team; experienced Board Members who understand both the opportunities and risks an organization such as ours faces; a supportive government; and innovative trade partners who work with us to provide Ontarians with products to suit every budget and taste.

As much as the LCBO has reinvented itself over the past decade or so, the need for further change is clear. We must continue to invest in all aspects of our business to make it more responsive and efficient, while maintaining our strong commitment to social responsibility. We must control expenses even as sales continue to grow. Last year, in our drive to provide outstanding customer service, we spent more than planned on retail salaries. This year, and in the years ahead, we're looking at ways to increase customer satisfaction while keeping our expenses in check. Through our supply chain initiative, we are now testing measures to reduce stock handling, for example, which would free up staff to spend more time putting their product knowledge to good use with customers.

We will continue to invest in renovating and relocating stores, to provide customers with more appealing and informative places to shop. Past investments in our retail system have made a significant contribution to our profitability. We'll continue to train frontline employees, with the goal of making each one a customer service specialist, and every customer an informed shopper. We plan to upgrade our point-of-sale system, which requires greater functionality to speed up customer transactions and better reflect today's complex, fast-paced retail environment. We also plan to expand and upgrade our Durham Logistics Facility. While Logistics employees have improved productivity in recent years, moving more cases per hour at a lower cost, the fact remains that our annual net sales have increased by more than $1 billion since Durham opened in 1985. A significant investment is required if it is to handle the greater number of cases that now move through the system.

By continuing to invest in our future, we believe we can grow the business again in fiscal 2001-2002, to net sales of $2.838 billion. While our projected growth rate of just under 5 per cent is lower than in recent years, it is still aggressive given the anticipated slowdown in the economy. But the LCBO has consistently exceeded the growth rates of most Canadian liquor jurisdictions, and of the Ontario and Canadian retail sectors, and we believe we can do so again in fiscal 2001-2002.

Effective July 3, 2001, the LCBO no longer regulates the way other beverage alcohol retailers operate in Ontario. Up until that date, we had responsibility for regulating Beer Stores, Ontario winery retail stores, and on-site brewery stores and distillery stores in terms of their locations, hours of operations and merchandising practices. The Alcohol and Gaming Commission of Ontario now fulfills this role, and also regulates the private delivery of alcohol. This change allows us to focus on providing the public with responsible, knowledgeable, compelling customer service.

Retailing in the new millennium is all about making life easier for time-starved customers, and providing them with the information they need to make informed shopping decisions.

Whether they are looking for the right wine to match tonight's meal; seeking out a gift for a friend or family member; planning a wedding or other large gathering; or simply eager to learn more about beverage alcohol, today's LCBO is determined to become their Source for Entertaining Ideas. And we will do so while upholding our high standard of corporate citizenship, through our Challenge and Refusal Program, our social responsibility advertising campaigns and our fundraising on behalf of MADD Canada and other organizations.

Our employees helped us meet these goals in fiscal 2000-2001, and I am confident they will do so again in the fiscal year ahead.

Andrew S. Brandt
Chair and CEO

Toronto, Ontario
August, 2001

The LCBO at a glance

Customer Service Representatives Ted Felora, Rosa Matallo, Dave Burley, Pragya Jain and Keith Moxam, of the LCBO Queens Quay store in downtown Toronto.

The Liquor Control Board of Ontario regulates the production, importation, distribution and sale of alcoholic beverages in Ontario.

The LCBO is the largest single retailer of beverage alcohol in the world, buying wine, spirits and beer from more than 60 countries for Ontario consumers and licensees.

To provide this service, the LCBO operates five regional warehouses that supply 601 stores across Ontario. Through this integrated distribution and retailing network, some 6,500 quality products are available to consumers, including wine, beer, spirits, coolers and accessories.

The LCBO also operates four VINTAGES stores, which offer consumers a wide selection of fine wines and premium spirits. VINTAGES products are also available in 12 VINTAGES boutiques and over 150 sections in regular LCBO stores. They can also be ordered through any LCBO outlet. Hundreds more premium products can be ordered from each edition of the VINTAGES *Classics Catalogue*, which is published three times a year.

Customers can also obtain many other products not regularly listed in Ontario through the LCBO Private Stock ordering program.

In partnership with the LCBO, established retailers operate 107 agency stores in communities without large enough population bases to support regular LCBO stores.

In the interests of consumer protection, the LCBO conducted some 330,000 tests on 13,785 different alcoholic beverages this year. This Quality Assurance testing helps ensure that all products sold by the LCBO and Brewers Retail stores comply with the federal *Food and Drugs Act*, as well as the LCBO's high standards for quality and taste.

For further information about LCBO products and services, call the LCBO toll-free Infoline at 1-800-ONT-LCBO (668-5226). In Toronto, call (416) 365-5900 or visit the LCBO's two Internet sites: www.lcbo.com (our corporate home page), and www.vintages.com (the VINTAGES home page).

Corporate governance

Our mission

The LCBO will be a customer-intense, performance-driven and profitable retailer of beverage alcohol, supporting the entertaining and responsible use of our products through enthusiastic, courteous and knowledgeable staff.

Our customers are the people who buy our products and services. Our stakeholders include the people of Ontario, their elected officials, our employees, our trade partners, and groups that share our concern for public safety. To serve their interests, we:

- deliver quality products and services at competitive prices
- distribute our products and services through a variety of retail formats and other sales channels, such as catalogues
- promote the responsible use of alcohol
- implement policies aimed at ensuring our workplaces are safe and free of harassment or discrimination
- control the importation, transportation, warehousing and sale of liquor outside of licensed premises, together with quality assurance and pricing, in a fair and impartial manner. (The authorization previously given by the LCBO for Ontario winery retail stores, Beer Stores, on-site brewery and distillery retail stores, and liquor delivery was transferred to the Alcohol and Gaming Commission of Ontario effective July 3, 2001.)

To fulfill our responsibilities to the government and people of Ontario, we:

- develop and implement programs and services aimed at deterring the sale of beverage alcohol to persons who cannot provide valid proof of age, who appear intoxicated or who are believed to be buying for either of these parties
- maximize dividends to the Government of Ontario
- enhance the LCBO's value to the Government of Ontario
- manage the LCBO's business risks.

What is corporate governance?

Corporate governance means the processes and procedures a corporation uses to manage its business and affairs to enhance shareholder value. It includes ensuring the financial viability of the business, and the corporation's positive relationship and dealings with stakeholders.

Since 1995, the Toronto and Montreal Stock Exchanges have required listed companies to disclose their corporate governance practices. As an operational enterprise of the provincial government, we are not subject to these policies. However, we believe that effective corporate governance and accountability are essential to fulfilling our mandate, and we have included this section to increase understanding of how we are governed.

Members of LCBO's Board have responded to the need to establish forward-looking policies for corporate governance and to monitor these policies to ensure their effectiveness. The LCBO strives to meet the highest standards of both corporate governance and disclosure.

The Board

The mandate of the Board is to supervise the business affairs of the LCBO. Among its most important responsibilities are:

- ensuring that the LCBO provides high quality service to the public
- developing and approving the strategic plan and monitoring management's success in meeting its business plans
- approving annual financial plans
- ensuring that the organization remains financially sound
- assessing and managing business risks
- submitting an annual financial plan to the Minister of Consumer and Business Services

- ensuring the organization has communications programs to inform stakeholders of significant business developments
- ensuring that the LCBO performs its regulatory role in a fair and impartial manner.

Appointment of Members to the Board

Members of the Board are appointed by the Lieutenant Governor, through Orders-in-Council, on the recommendation of the Premier and Minister of Consumer and Business Services. Members are appointed for a term of up to five years.

The LCBO provides new Members with a comprehensive orientation program, which includes information about its business, operations and current strategies and issues, and visits to LCBO facilities. New Members also receive written materials and meet with senior management.

Responsibilities of Board Members

Each Board Member has individual fiduciary responsibility for corporate governance, including:

- acting honestly and in good faith in making decisions with a view to the best interests of the LCBO and all its stakeholders
- overseeing the management of the business and affairs of the LCBO
- avoiding conflicts of interest. Board Members may not enter into arrangements with the LCBO for personal gain
- having adequate knowledge of the LCBO's business, how it is organized, and how it functions
- attending Board meetings and seeking professional advice where necessary
- exercising judgment independent of management
- providing guidance on policy development.

Strategic planning process

Since 1987, the LCBO has had a five-year strategic planning process. The process begins with an annual strategic planning conference whose purpose is to help define priorities and goals over the five-year period and shape our efforts over the shorter term. The Board approves the corporate strategies and reviews the objectives developed by each division to achieve them. Performance appraisals are tied to corporate and departmental business plans: every employee up to the senior vice president level is assessed by how well he or she helps the LCBO achieve its objectives.

The strategic plan is supported by our five-year capital plan. For further information, please see The Five-Year Plan in Beyond the Numbers 2000-2001: Management's discussion and analysis of operations.

Audit and Governance Review Committee

The Audit and Governance Review Committee is composed of three Board Members elected annually by the Board. The Committee ensures the reliability and accuracy of the LCBO's financial statements, helps co-ordinate and improve its internal control functions, reviews and advises on possible changes to the LCBO's corporate governance policies and practices, and ensures that the LCBO adheres to sound corporate governance principles. The Committee:

- monitors the Board's activities and operations
- reviews the LCBO's policy and procedures manuals to ensure that they describe adequate and commercially reasonable procedures and activities and set out appropriate control and management processes
- reviews and makes recommendations to Board Members on the LCBO's strategic planning process and the appointment, training and monitoring of the performance of its senior management

- reviews the scope of the responsibilities of the LCBO's Chair and CEO and the Members of the Board and the limits of senior management responsibility and makes recommendations to the Members of the Board accordingly
- advises and counsels the LCBO General Audit Department
- in conjunction with the LCBO General Audit Department, reviews the LCBO's internal control system, internal compliance audits and the annual budget, and makes recommendations as required
- identifies the principal risks facing the business and reviews systems to manage these risks
- acts as a liaison among the Board, the LCBO's General Audit Department and the Provincial Auditor
- oversees the production of the Annual Report.

The Committee meets at least twice a year.

Ethics and business conduct

The Board is responsible for establishing and monitoring a system for corporate governance, and for administering and enforcing a code of conduct for business ethics.

Following a review of the LCBO's corporate governance practices, in March, 1998, the Board approved a new policy for the conduct of the business of the corporation, including terms of reference and practices for the Board and for all committees of the Board. In April, 1998, the Board approved a new Code of Business Conduct, with policies for conflict of interest; confidentiality; the outside activities of employees, officers and Members of the Board; gifts and entertainment; and human rights.

Health and safety

The Board approves an annual health and safety policy, and ensures that regular meetings are held by joint bargaining unit and management health and safety committees. As part of its monitoring of the policy, the Board ensures it is kept informed of workplace health and safety issues. Reports are provided to the Board monthly.

Store Planning and Development Committee

This is a staff committee which reports to the Board. It reviews all real estate and leasing decisions and makes recommendations to the Board. The Committee meets monthly.

Listings Committee

This is a staff committee which reports to the Board. It reviews all recommended General List applications to list beverage alcohol in LCBO stores, and makes recommendations to the Board about these applications and about the delisting of certain products. The Committee normally meets quarterly.

Listings Appeals Committee

This is a staff committee which reports to the Board. It reviews all appeals of decisions denying listing applications and delisting beverage alcohol products and makes recommendations to the Board. The Committee meets quarterly.

Relationship with government

In public companies, boards of directors usually have a number of key responsibilities which they perform on behalf of shareholders to ensure an effective system of accountability. In the case of the LCBO, an operational enterprise of the Ontario government, several of these functions are performed directly by government. This includes appointment of the Chair and CEO. In making major policy decisions, the Board often invites input from the provincial government and other stakeholders and takes into account government policy objectives.

Glossary of LCBO terms

Agency stores: operated by established retailers in communities without the population to support regular LCBO or Beer Stores. At the end of fiscal 2000-2001, there were 107 agency stores, most in Northern Ontario.

AIR MILES Rewards: a loyalty program operated in Canada by Loyalty Management Group Canada Inc. that allows participating LCBO customers to earn travel and other rewards – such as movie passes, car rentals or long distance calls – by making purchases from the LCBO and other participating sponsors. AIR MILES is a trademark of AIR MILES International Holdings N.V., used under licence by Loyalty Management Group Canada Inc.

Alcohol and Gaming Commission of Ontario (AGCO): a regulatory body of the Ontario government responsible for the administration of the *Gaming Control Act*, the *Liquor Licence Act* and the *Wine Content and Labelling Act*. Among other things, it regulates the sale and service of liquor in licensed premises and at Special Occasion Permit events. The authorization previously given by the LCBO for Ontario winery retail stores, Beer Stores, on-site brewery and distillery retail stores, and private liquor delivery was transferred to the AGCO July 3, 2001.

Brewers Retail Inc. (BRI): a private company owned by three Ontario brewers (Labatt, Molson and Sleeman), which sells domestic and foreign beer and related merchandise through 431 Beer Stores located in 231 communities across Ontario.

Brewery store (on-site): a retail store operated by a brewer at its manufacturing site. There are 36 on-site brewery stores.

BYID (Bring Your Identification) card: a tamper-resistant photo ID card issued by the LCBO, and accepted as valid proof of age in all LCBO and BRI stores and licensed establishments. Cards can be obtained with proper identification and a $15 fee. Applications are available at all LCBO stores.

Challenge and Refusal: an LCBO social responsibility program in all stores that helps ensure beverage alcohol is not sold to minors, to persons who appear intoxicated, or to anyone making purchases on behalf of these two groups.

Check 25: an LCBO social responsibility program whereby anyone appearing to be under the age of 25 is routinely asked for identification by Retail staff.

***Classics Catalogue*:** published three times a year by VINTAGES, each edition offers hundreds of premium quality spirits, critically acclaimed wines from older vintages and sought-after selections from smaller producers and estates.

Combination or "combo" stores: these sell a full variety of domestic beer in every size, as well as regular LCBO products. This format originated as a customer service initiative in smaller, usually rural communities where there are no Beer Stores. Regular LCBO stores mainly sell six-packs of selected domestic and imported beer.

Consignment Warehouse: a program that allows agents/suppliers to bring products not regularly sold at LCBO retail stores to an LCBO warehouse to be held for sale. Licensed suppliers' agents are responsible for finding buyers for these products; suppliers are not paid until the product is sold.

CSR: an LCBO Customer Service Representative, trained to offer helpful, knowledgeable and socially responsible service.

Distillery store (on-site): a retail store operated by a distiller at its manufacturing site. There are three on-site distillery stores.

Duty-free shop: a retail shop located at an international airport in Ontario, or a bridge, tunnel or land-border exit from Ontario, licensed by the Canada Customs & Revenue Agency to sell items free of duties and taxes, and authorized by the LCBO to sell beverage alcohol. Duty-free shops are privately operated and regulated, as regards the sale of beverage alcohol, by the LCBO.

Embassy or Official Government Sales Discount: a discount on beverage alcohol provided by the LCBO to foreign embassies, consulates, trade missions and other diplomatically staffed foreign institutions recognized as such by Foreign Affairs and International Trade Canada. They may purchase imported beverage alcohol products through the LCBO's Private Ordering Department at a discount for official use within the institutions, comparable to discounts that foreign governments provide to Canadian diplomatic institutions abroad.

Flavoured wine drinks: varietal wines mixed with essences of fruit and/or lightly carbonated.

***FOOD & DRINK*:** the LCBO's free magazine, published six times a year to help customers entertain responsibly and with ease.

Fortified wine: wine such as Port, Sherry and Madeira, whose alcohol level has been "fortified" by the addition of spirits.

General List: a list of products regularly available in LCBO stores.

Icewine: a dessert wine made from grapes – most often Vidal or Riesling – left on the vine until they freeze solid. Once the grapes are picked, ice crystals are removed, leaving behind an intensely sweet, concentrated juice often called "liquid gold." Ontario Icewines are widely considered the best in the world, winning award after award in open competitions.

IMAGE program: provides LCBO suppliers the opportunity to purchase display space to promote their products in selected stores during 13 four-week periods.

LCBO Private Stock Program: enables LCBO customers to obtain beverage alcohol products that may not be listed for sale in LCBO retail stores. Individuals can order case lots from anywhere in the world as long as the supplier will ship them to the LCBO.

Licensee: the holder of a licence to sell beverage alcohol to the public at licensed premises, issued by the Alcohol and Gaming Commission of Ontario under the *Liquor Licence Act*.

Limited Time Offers (LTOs): month-long price discounts of up to 20 per cent on selected beverage alcohol products.

***Liquor Control Act*:** provincial legislation passed in 1927 that gives the LCBO broad powers to control the transportation, sale and delivery of beverage alcohol in Ontario.

Microbrewery: a brewery that produces less than 100,000 hectolitres of beer annually.

POS: the point-of-sale system used in LCBO stores. It helps speed up every sales transaction in LCBO stores; transmits vital information on inventory movement to Head Office; and facilitates debit/credit authorization and other interfaces with financial institutions. New full-screen displays also help promote customer services, such as the AIR MILES Rewards program, and transmit social responsibility messages.

Product consultants: LCBO employees whose expert knowledge of wines, spirits and beers helps them inform customers and colleagues about every aspect of beverage alcohol. As of March 31, 2001, there were 129 product consultants in our stores.

Product Knowledge Correspondence Course: a three-level employee training program mandatory for all LCBO Retail staff. The program is also available to the public at a cost of $80. CD-ROM versions of Levels I and II are now available; Level III is in development.

Quality Assurance: the department of the LCBO responsible for testing products for safety and analytical purposes. It also conducts chemical tests and taste assessments for outside agencies, such as other beverage alcohol regulators or retailers or the Vintners Quality Alliance [see VQA] and assists in confirming whether products seized by enforcement agencies were illegally manufactured or smuggled into Ontario.

SMAART (Strategies for Managing Age and Alcohol-Related Troubles): LCBO's comprehensive video-based training program designed to educate staff about responsible service and related judgment calls, alcohol issues and how to handle problem customers. All employees who serve the public are required to take SMAART training.

Source for Entertaining Ideas: the brand vision of the LCBO, designed to position the organization in the eyes of customers – and employees – as the place where Ontarians can find a full range of products and services to help them entertain easily and responsibly.

Special Occasion Permit: a one-time permit issued under the *Liquor Licence Act* by the AGCO and available in selected LCBO stores. It allows holders to serve or sell beverage alcohol at a specific location which is not a licensed establishment or a private place or residence.

Spirit cooler: a mixture of spirits and soft drinks or fruit juices. Wine- and beer-based coolers are also sold in LCBO stores.

Strategic scorecard: a strategic management tool the LCBO uses to gauge its progress against targets in key areas such as customer satisfaction, social responsibility and financial performance.

Supply chain management: this term applies to all components of the product ordering and delivery system from the time orders are placed with suppliers to when the product arrives on store shelves.

U-Brew/U-Vint/U-Ferment: privately operated service outlets, licensed and regulated by the AGCO, that provide customers with ingredients, equipment and expertise to make their own beer or wine at the shop.

Value-adds: bonus items attached by suppliers to a liquor product sold in LCBO stores.

Varietals: wines made from particular grape varieties, as opposed to blends. Well-known red varietals include Cabernet Sauvignon and Merlot; popular white varietals include Chardonnay, Sauvignon Blanc and Riesling.

Vintages: the fine wine and spirits division of the LCBO. It offers an ever-changing assortment of premium products of unusual nature, limited production and/or niche market interest.

VQA: Vintners Quality Alliance (VQA) designation awarded to Ontario and B.C. wines of superior quality that meet strict wine-making and taste standards, modeled on "Appellation of Origin" systems used in other wine-producing countries. VQA legislation has replaced the voluntary system in place since 1988.

VQA Ontario: a non-profit corporation designated by the provincial government under the VQA legislation to control the use in Ontario of specified terms, descriptions and designations of wine, and to set quality standards for wines to which these terms, descriptions and designations are applied.

Wholesale channel: refers to the LCBO's sale and distribution of liquor to liquor retailers such as licensees, BRI, agency stores and duty-free stores.

Winery retail store: a retail store operated by an Ontario winery. There are two types of winery retail stores: "on-site" stores at the winery that may sell only wine made by the winery at that location, and "off-site" stores that may sell only wine made by the winery. Due to international trade agreements, the number of "off-site" stores is capped. There are a total of 364 winery retail stores in Ontario.

WOW 2000 – From Vines to Wines: a training program designed by the LCBO and trade partners to increase employees' knowledge of Wonderful Ontario Wines (WOW). It gave every LCBO employee the opportunity to visit Ontario wineries, to see first hand how domestic wines are made.

The LCBO senior management team. Front row, from left to right: Bill Kennedy, Executive Director, Corporate Communications; Jackie Bonic, VP Store Development & Real Estate; Nancy Cardinal, VP Marketing Communications; Larry Gee, EVP & COO; Mary Fitzpatrick, Senior VP, General Counsel & Corporate Secretary; Barry O'Brien, Director, Corporate Affairs. Back row: Ian Martin, Senior VP Logistics; Gar Sherwood, Senior VP Retail; Hugh Kelly, Senior VP Information Technology; Murray Kane, Senior VP Human Resources; Tom Wilson, VP VINTAGES; Larry Flynn, Senior VP Merchandising.

Absent: Alex Browning, Senior VP Finance & Administration; Gerry Ker, Director, Corporate Policy; Shelley Sutton, Director, Strategic Planning.

Beyond the numbers 2000-2001

MANAGEMENT'S DISCUSSION AND ANALYSIS OF OPERATIONS

This section of the report explains the financial results of the LCBO for the past year and provides background for evaluating its performance. Canadian securities regulations require public companies to include a discussion of operating results in the annual report, along with annual financial statements. As a provincial government operational enterprise, the LCBO is not subject to these regulations. However, we've included this discussion to increase understanding of our operations and ensure full disclosure of our results to the widest possible audience.

Highlights (value in $000s)

	1999-2000	2000-2001
Dividend to government	$800,000	$850,000
Net sales and other income	$2,549,458	$2,734,937
Per cent increase	8.5	7.3
Operating expenses	$414,861	$468,090
Net income	$845,694	$876,272
Per cent increase	4.5	3.6

Higher dividend to government for the seventh straight year

We transferred a record $850 million dividend to government in 2000-2001, a $50 million increase over last year. This is the seventh straight year we've increased our dividend.

The following table gives a 10-year history of the LCBO dividend to the province of Ontario.

The dividend hit a low of $585 million in 1993-1994 but has been steadily increasing ever since. This can be attributed to LCBO retailing and merchandising initiatives such as new store formats and store improvements, a dynamic product portfolio, staff training, application of technology, integrated marketing, the introduction of debit/credit cards, AIR MILES Rewards and year-round Sunday openings, as well as overall improved economic conditions.

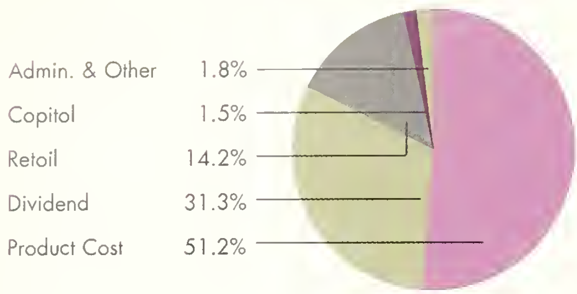
Billion dollar payout

The LCBO dividend does not include Provincial Sales Tax (PST), which amounted to $255 million in 2000-2001. If you combine the dividend and the PST we collected, the LCBO broke the billion-dollar mark for the third straight year, giving our owners – the Government of Ontario – a total of $1.105 billion. This is just over 6 per cent more than last year. The LCBO also remitted $79 million to the federal government in GST and $3.7 million in property taxes to municipal governments.

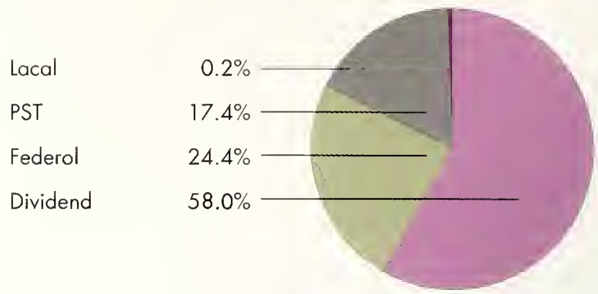
The charts on the next page show the breakdown of $1 in net sales, and how LCBO profits are shared between various levels of government.

Dividend	91/92	92/93	93/94	94/95	95/96	96/97	97/98	98/99	99/00	00/01
($000,000s)	$675	$615	$585	$630	$680	$730	$745	$780	$800	$850

Breakdown of $1 in net sales



LCBO Payments to Government



Sales set new record

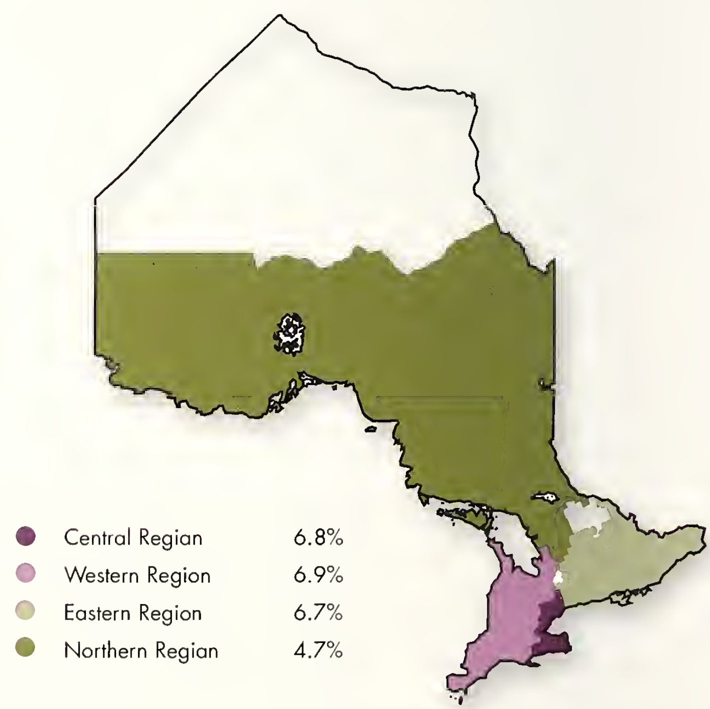
Against a background of strong consumer confidence and a robust Ontario economy, and despite a cool and wet summer season, LCBO net sales rose $180.7 million last year, or 7.1 per cent, to $2.714 billion.

The LCBO, along with the Société des Alcools du Québec (SAQ), continues to lead liquor jurisdictions in Canada in volume and value growth. LCBO volume sales grew by 6.2 per cent (SAQ 5.8 per cent) while dollar sales grew by 7.1 per cent (SAQ 8 per cent). A portion of the SAQ's growth was driven by aggressive discounting and a significant expansion of its store network.

On a broader national level, total retail-sector sales grew 5.3 per cent between 1999-2000 and 2000-2001. According to Statistics Canada, Ontario outperformed the national average with retail sales growing by 6.9 per cent. LCBO efforts have produced a sales increase of 7.1 per cent, outperforming total retail sales growth on both the national and provincial levels.

Sales growth strong in all LCBO retail regions

All four LCBO retail regions experienced strong sales growth in fiscal 2000-2001, as the following map shows.



Retail and wholesale sales both strong

For comparative purposes across sales channels, including retail and wholesale channels which are subject to different discount programs and taxes, gross retail sales (including all taxes) are compared. LCBO retail sales, which we define as sales to home consumers, grew by 6.9 per cent over last year and account for 80.4 per cent of the LCBO's total gross sales, amounting to $2.56 billion.

Gross sales through wholesale channels also grew strongly last year, by 7.8 per cent. Ontarians continue to enjoy eating out and patronizing licensed establishments, as reflected in the 5.8 per cent increase in LCBO sales to licensees, accounting for 13.2 per cent of total LCBO gross sales. Sales to Brewers Retail Inc. (BRI) increased by 17.3 per cent, highlighting the continuing growth in the sale of imported beer. Sales to BRI accounted for 4.1 per cent of total LCBO gross sales. Sales to agency stores accounted for 1.1 per cent of total sales while sales to duty-free operators accounted for 1.1 per cent of total sales in fiscal 2000-2001.

In all, wholesale sales accounted for 19.6 per cent of total LCBO sales, up from 17.9 per cent five years ago.

LCBO in shared marketplace

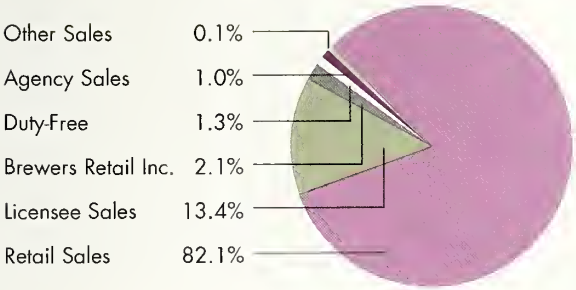
The LCBO operates in a shared marketplace along with other retailers of beverage alcohol, including BRI, Ontario winery retail stores, on-site brewery stores, agency stores, duty-free operators and on-site distillery stores. There are currently 1,557 outlets selling alcohol in Ontario.

Here's what the market looked like at March 31, 2001 (percentages have been rounded):

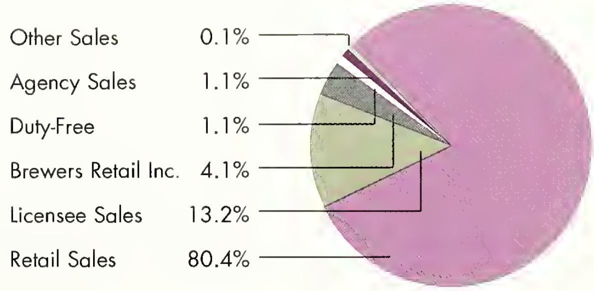
- 601 LCBO stores (39 per cent of all outlets)*
- 431 Brewers Retail stores (28 per cent of all outlets)
- 364 Ontario winery retail stores (23 per cent of all outlets)
- 107 agency stores (7 per cent of all outlets)
- 36 on-site brewery stores (2 per cent of all outlets)
- 11 land border-point duty-free stores (0.7 per cent of all outlets)
- 4 airport duty-free stores (0.2 per cent of all outlets)
- 3 on-site distillery stores (0.1 per cent of all outlets).

*If you combine the LCBO's 601 stores and Ontario's 107 agency stores, their market share of retail outlets is approximately 45 per cent.

Breakdown of LCBO Sales 1996-1997



Breakdown of LCBO Sales 2000-2001

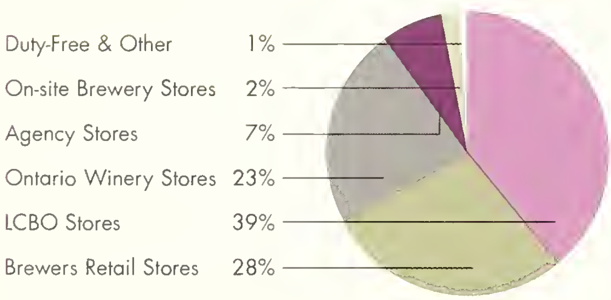


Changes in market share

The total Ontario beverage alcohol marketplace amounted to approximately $7.2 billion in gross sales in 2000-2001. The LCBO's market share by value has risen from 38.8 per cent in 1996-1997 to 44.2 per cent in 2000-2001. Winery retail store sales have maintained a market share of 2.1 per cent since 1996-1997. BRI's market share decreased from 34.3 per cent in 1996-1997 to 33.2 in 2000-2001.

By volume, LCBO's market share rose 6.6 percentage points between 1996-1997 and 2000-2001, from 21 per cent to 27.6 per cent. Winery retail stores increased their market share from 2.2 per cent to 2.4 per cent over the same time period, while BRI fell from 67 per cent to 64.6 per cent.

LCBO percentage of market share (by number of outlets)



U-Brew and U-Vint market

In 2000-2001, the U-Brew and U-Vint market is estimated to have fallen in market share from 11.3 per cent in 1999-2000 to 10.9 per cent in 2000-2001, just slightly higher than its 1996-1997 share of 10.8 per cent. Although the number of U-Brew and U-Vint establishments continues to grow in the province, the customer service, marketing and product knowledge efforts of the LCBO, winery retail stores and BRI appear to have repatriated a portion of the market share of this channel.

Illegal competition

Since 1993-1994, the estimated size of the illegal market in Ontario has been falling steadily. In 2000-2001, illegal alcohol accounted for an estimated $406 million in sales, or approximately 5.7 per cent of the total Ontario beverage alcohol market. This is down from the estimated $456 million or 6.6 per cent in 1999-2000, and the estimated $620 million or 10.3 per cent market share in 1996-1997. This decline is due largely to continuing public education about the health risks of consuming illegal alcohol; customer service initiatives – such as Sunday openings, credit/debit card payment options and upgraded store formats – that have helped draw customers back to legal channels; and the efforts of law enforcement agencies to curb this problem.

Income statement

Net income up $30.6 million

Net income for fiscal 2000-2001 was $876 million. This was more than $30 million higher than last year, representing a 3.6 per cent increase.

The net-income-to-net-sales ratio was 32.3 per cent, just short of the 2000-2001 target of 33.5 per cent.

Our expense-to-net-sales ratio was originally forecast at 16.2 per cent but came in at 17.2 per cent in fiscal 2000-2001. More detail is provided in the section on productivity ratios.

The net sales growth of 7.1 per cent was impressive, especially in light of last year benefiting from the millennium celebrations. However, it did not meet the aggressive target of 8.2 per cent set at the end of last year because of a poor summer in terms of wet and cool weather, which had a dampening effect on sales of beverage alcohol.

Gross margins

Gross margin as a percentage of net sales for 2000-2001 was 48.8 per cent, slightly below last year's 49.1 per cent, and below the target of 49.2 per cent. The margin decline reflects the continuing shift in the product mix away from spirits and towards beer and wine. For every dollar of net sales, our gross margin return on spirits is $0.57. On wine, it is $0.50 and on beer $0.32. Beer and wine now represent 51 per cent of total net sales, up from 50 per cent last year and 47 per cent five years ago. The increasing strength of beer and wine in the product mix means an ever greater proportion of our incremental sales dollars comes from the sale of lower-margin products.

The growth in the wholesale market also contributed to the lower gross margin ratio, due to the discounts provided on these sales.

Productivity ratios

To track expenses and see where improvements are needed, the LCBO sets targets for many productivity ratios each year. For example, the store-expenses-to-sales ratio shows what percentage of net sales is needed to pay retail expenses such as salaries, rent and other expenses. A declining salary expenses-to-sales ratio means that staff are becoming more productive.

Productivity increased and the cost per case handled decreased this year at Durham Logistics Facility, which moves some 30 million cases of beverage alcohol a year. Left to right are Warehouse Worker Tim Anderson; Director Bruce Pizzolato; Warehouse Worker Eddy Tham; Warehouse Worker Joe Sousa; Warehouse Receiving Clerk Pauline Graham; and Vic Araujo, General Manager, Operations.

The LCBO did not meet certain retail productivity targets set at the end of fiscal 1999-2000. A number of unforeseen factors affected the expenses of operating the retail network. In our drive to provide compelling customer service, particularly at holiday time when customers seek more advice on products, and enhanced services such as gift wrapping, we did not achieve optimum staffing levels. We have taken note of this and are making adjustments where possible to bring expenses under control. Also, under a new collective agreement, the pay rate for unionized casual staff on Sundays was increased, as was the rate paid on Christmas Eve and New Year's Eve to regular employees. These increased staffing requirements and salary costs resulted in missed targets. However, sales performance was excellent, as indicated by the overall increase in total sales and income, and the increases in the sales-value-per-customer and the sales-per-square-foot productivity ratios.

From the logistics side of the business, four of the seven productivity targets were met or bettered. Only the freight productivity ratios were slightly off target (although in line with last year), owing to increased fuel charges, increased container traffic and increased deliveries to the store system.

Store salaries to sales: Both the number of staffing hours and the rate at which employees were paid were underestimated in fiscal 2000-2001. As a result, we missed our target of 7.2 per cent, coming in at 7.9 per cent.

Store expenses as a percentage of sales: Store expenses increased owing to the higher salary costs noted above, and to higher-than-expected lease costs, utilities and property taxes. This resulted in a ratio of 11 per cent, missing the target of 9.9 per cent.

Store salary per unit sold: Increasing salary costs resulted in our missing the target of $0.79, coming in at $0.87.

Store expenses per unit sold: The target of $1.09 was missed, coming in at $1.22. This reflects the increases in the store-expenses ratio.

Unit sales per hour: Came in at 25.5, missing the target of 27.9. This reflects the higher than budgeted staff hours in the retail system.

Sales per customer: Up from last year's $27.19 to $27.86, but missed the target of $28.81.

Sales per square foot: Up from last year's $1,674 to $1,693, exceeding the target of $1,680.

Retail – Financial & Operating Highlights

	96-97	97-98	98-99	99-00	00-01
Store salaries to sales	8.0%	7.8%	7.8%	7.6%	7.9%
Store expenses as % of sales	11.1%	10.8%	10.6%	10.5%	11.0%
Store salary per unit sold	$0.86	$0.84	$0.85	$0.84	$0.87
Store expenses per unit sold	$1.19	$1.16	$1.16	$1.17	$1.22
Unit sales per hour	24.5	25.4	25.8	25.7	25.5
Sales per customer	$25.28	$25.75	$26.19	$27.19	$27.86
Sales per square foot	$1,365	$1,452	$1,546	$1,674	$1,693

Salary cost per case: Met the $0.73 target, matching last year's value.

Warehouse cost per case: Bettered the target of $0.92 and bettered last year, coming in at $0.90.

Logistics cases per hour: Bettered both the target of 62 and last year's 61, coming in at 63 cases per hour.

Logistics cost per case handled: Decreased by $0.02 per case compared to last year and compared to target, surpassing expectations.

Freight expense per case: Slightly above the target of $1.15 at $1.16.

Inbound freight as a percentage of sales: The same as 1999-2000 at 2 per cent but slightly below the target of 1.9 per cent.

Outbound freight as a percentage of sales: The same as 1999-2000 at 0.6 per cent but slightly below the target of 0.5 per cent.

Logistics – Financial & Operating Highlights

	96-97	97-98	98-99	99-00	00-01
Salary cost per case	$0.82	$0.74	$0.74	$0.73	$0.73
Warehouse cost per case	$1.10	$0.98	$0.91	$0.93	$0.90
Logistics cases per hour	51	55	59	61	63
Logistics cost per case handled	$0.70	$0.63	$0.58	$0.59	$0.57
Freight expense per case	$1.22	$1.15	$1.07	$1.13	$1.16
Inbound freight as % of sales	2.1%	2.0%	1.9%	2.0%	2.0%
Outbound freight as % of sales	0.5%	0.5%	0.5%	0.6%	0.6%

Expense targets

The administrative expense ratio fell from 1.5 per cent in 1999-2000 to 1.3 per cent in 2000-2001. This is below the target of 1.4 per cent set for the fiscal year.

Operating expenses increased by $53.9 million in 2000-2001. The increase in operating expenses reflects enhanced customer service initiatives, such as free gift wrapping, and additional staff required to meet the demand for product knowledge and advice that customers are seeking. The additional retail staff requirements, coupled with their additional salary costs, led to the increase in operating expenses.

Operating expenses as a percentage of net sales grew from 16.3 per cent in 1999-2000 to 17.2 per cent in 2000-2001.

Other income

This category includes items such as parking revenues, Special Occasion Permits, airline markups and investment income. Other income in fiscal 2000-2001 was $20 million, up from last year's $15.8 million.

Balance sheet

Liabilities

Liabilities, consisting of accounts payable, rose from $221.2 million in 1999-2000 to $249.4 million in 2000-2001.

Year-end inventory

Year-end inventory was up from $255.4 million in 1999-2000 to $260.6 million in 2000-2001. Total inventory turns rose from 5.2 in 1999-2000 to 5.3 in 2000-2001, just under the target of 5.4.

Changes in our financial position

Our cash position increased from $31.1 million in 1999-2000 to $48 million at the end of 2000-2001.

Capital Expenditures

(values in $000s, numbers rounded)

	96/97	97/98	98/99	99/00	00/01
Retail	8,110	13,008	17,730	23,112	39,984
Information Technology	8,720	8,472	17,834	24,895	7,375
Logistics	782	1,213	1,658	1,760	2,066
Marketing Programs	1,554	1,989	2,558	2,434	1,231
Other Administrative Divisions	248	917	1,179	1,463	2,409
Systems Improvements	N/A	N/A	N/A	808	2,624
Total Capital Expenditures	19,414	25,599	40,959	54,472	55,689

Most capital expenditures occur at the retail level, as we continue to upgrade and improve retail outlets in keeping with our five-year strategic plan of making the LCBO the Source for Entertaining Ideas.

The slight increase in capital spending between 1999-2000 and 2000-2001 reflects the LCBO's investment in needed improvements in the retail system, including updating the point-of-sale system in stores.

Continuous innovation

Our success as a retailer is due to continuous innovation. In the past year we introduced new products and services and increased staff knowledge to better service our customers. We have also tailored new stores to better suit their markets. Our number one goal is to provide compelling customer service.

The five-year plan

To meet our goal, we've developed a five-year capital strategy to allow us to:

- continue to succeed in the changing beverage alcohol market
- increase customer satisfaction and remain the beverage alcohol retailer of choice
- maximize returns to Ontario taxpayers by generating increased dividends to the Ontario government.

Fiscal 2000-2001 was the third year of the current five-year plan. The original plan calls for $251 million in capital spending over five years with just over 95 per cent spent on operations – the elements that customers see and experience. We expect an average dividend of $841 million each year under the plan, or transfers of $4.2 billion over the five years.

Looking ahead

Sales for fiscal 2001-2002 are forecast to increase by 4.6 per cent or $124.2 million to $2.84 billion. The forecast in net sales is more conservative than for fiscal 2000-2001, reflecting the probability of a slowing of the provincial economy.

As we enter the fourth year of the plan in 2001-2002, we look to the past year to identify areas for improvement, focusing on the cost side. To better control salary costs in the next fiscal year, a review of scheduling for staff hours will be undertaken, and summaries of staff hours by all staff members will be consolidated and reviewed on a weekly basis.

Our product costs as a percentage of net sales are projected to rise slightly from 51.2 per cent in 2000-2001 to 52 per cent in 2001-2002.

Volume sales are expected to increase by 2.8 per cent next year. Gross margin is expected to continue its decline under the combined market pressures of a changing mix of product and flat markup rates, and come in at 48 per cent. This will drive net income down to 31.3 per cent of net sales as net income increases slightly by 1.3 per cent from $876 million to $888 million.

Our dividend to the Government of Ontario should increase for the eighth consecutive year to $875 million, up by $25 million or 2.9 per cent. Having achieved an $850 million dividend in fiscal 2000-2001, we have now transferred an additional $99 million over plan in the first three years of the current five-year plan.

Our expense-to-net-sales ratio was originally forecast at 16.2 per cent but came in at 17.2 per cent in fiscal 2000-2001. This ratio is forecast to come in at 17 per cent in 2001-2002, as a result of cost containment and efficiency measures.

Many LCBO stores now offer attractive gift displays and free gift wrapping. Advertising and in-store displays remind Ontario consumers the LCBO is a convenient gift source for holidays, birthdays and other occasions. As a result of these marketing efforts, and strong support from our suppliers, gift sales rose 51 per cent last year to $74 million.

Long-Term Strategic Plan 1998 - 2003

MISSION

The LCBO will be a customer-intense, performance-driven and profitable retailer of beverage alcohol, supporting the entertaining and responsible use of our products through enthusiastic, courteous and knowledgeable staff.

BRAND VISION

THE SOURCE FOR ENTERTAINING IDEAS

PERSONALITY

Knowledge Source	Fun	Inspiring	Friendly	Caring

OBJECTIVES

1. To increase customer satisfaction.
2. To promote the responsible use of beverage alcohol.
3. To maximize returns to Ontario taxpayers by generating a total of $4.2 billion in dividend transfers over five years.

STRATEGIES

1. Define, develop and implement Compelling Customer Service.
2. Implement a Whole Branding Strategy.
3. Provide seamless service at the lowest cost while maximizing productivity and customer satisfaction.
4. Invest in technology as an enabler.
5. Have the right people in the right place with the right attitude and skills.
6. Target customers who provide the greatest returns.
7. Secure the support of key stakeholders, particularly those who look to the LCBO for leadership in social responsibility.

COMPETITIVE ADVANTAGE

Knowledge drives information and entertainment, which deliver compelling customer service

Product trends

Wines

MISSION: TO PROVIDE OUR CUSTOMERS WITH AN EXCEPTIONAL SELECTION OF QUALITY WINES AT AFFORDABLE PRICES.

The Wines Category continued to grow despite the return of Champagne sales to pre-millennium levels, with value sales rising 4.5 per cent to $733 million.

Three key segments pushed this growth, according to Category Director Tamara Burns: red wine, premium price bands and wines from Australia.

Hot down under

"Australia is now a marquee player in the Ontario market," says Burns.

Australia benefits from an overall trend toward New World wines, which now account for 55 per cent of Wines Category sales, compared to 48 per cent in 1995. Their growth can be attributed to consumer preferences for red wines – especially varietals, which are made mostly from a single grape variety that is identified on the label – and for wines in premium price bands that offer good value for money.

Litre sales of Australian reds grew by 44 per cent and were especially strong in the $10 to $15 price band, growing by 50 per cent.

Especially popular were wines made from the grape Shiraz – known as Syrah in France and California.

Australian whites did well too, with litre sales growing by 17 per cent. Many producers of popular Australian reds also make good whites and customers are willing to try them, based on their positive experiences with the reds.

White wines in general are holding their own, Burns notes, increasing slightly in volume (0.3 per cent) and value (0.8 per cent) over last year. "Given how popular reds are right now, any increase in whites is impressive."

Reds now hold 43 per cent of the Ontario wine market in value sales; whites hold 39 per cent; sparkling, fortified and other wines hold 14 per cent; and rosés 4 per cent. In 1995, by comparison, white wines held a 51 per cent share of the category.

Imported wines

Apart from Australia, other countries that enjoyed strong growth in fiscal 2000-2001 included: the U.S. (up 8.1 per cent in value sales); Italy (6.8 per cent); South Africa (17.9 per cent); Argentina (18.2 per cent); and Chile (7.9 per cent).

Italy is virtually the only country in Europe whose volume sales are not declining. The trend to varietal wines has hurt European wines, many of which are regional blended table wines.

Sales of wines from France declined by 3.9 per cent in value, and its market share dropped by 1.9 per cent, although it remains the top-selling producer after Canada. "Not all areas of France were in decline," Burns points out. "Burgundy, for example, is up 13 per cent, due to the popularity of Beaujolais wines."

The countries enjoying the greatest success share an ability to deliver attractively packaged wines that offer good value for money, in a fruit-driven style customers enjoy.

Domestic wines

Sales of domestic wines rose 1.1 per cent in value and 2.8 per cent in volume. But with the stronger growth exhibited by Australia and others, these gains still led to a loss in market share.

The greatest successes in Ontario were the premium wines that bear the Vintners Quality Alliance (VQA) label, meaning they met strict wine-making and taste standards. LCBO value sales of VQA wines rose from $39 million to $43.7 million in fiscal 2000-2001, an increase of 12.1 per cent.

In general, Ontario Rieslings and Chardonnays did well this year, especially those Chardonnays made in a crisp, Burgundian style, with little or no oak ageing.

Ontario reds improve each year, but face tough competition from Australia and other New World producers, according to Burns. As cool-climate wines, which tend to be somewhat austere, they are not in line with current consumer taste for fruit-forward wines.

Other trends

This past year saw Port sales rise by 27 per cent in volume and 35 per cent in value. Burns attributes the popularity of this Portuguese after-dinner wine to new product introductions; a popular promotion in October; and a strong lineup of gift items.

Rosés were up only slightly, by 0.2 per cent in dollars. The poor spring weather affected this segment, which is geared towards warm weather and outdoor entertaining.

Flavoured wine drinks – varietal wines mixed with essences of fruit or lightly carbonated – continued their upward trend, with sales doubling to $11.9 million. "They are proving popular with both men and women, and year-round, not just in summer," Burns says.

The trend toward varietals continues, with New World Shiraz/Syrah emerging as a new favourite, growing 67 per cent over last year. "Consumers also favour premium blends, such as Cabernet-Shiraz and Cabernet-Merlot," according to Burns. "They make for complex, interesting wines that showcase the winemaker's skill and appeal to the consumer's sense of discovery."

Looking ahead

The Australian success story is expected to continue. For fiscal 2001-2002, LCBO will bring in approximately 40 new products from Australia, on top of the 85 already in the system.

Burns expects Chile to enjoy success with varietals for which it has not been previously known, including Syrah. She is also predicting growth in sales of wines from Italy, South Africa, New Zealand and VQA wines from Canada.

Spirits

MISSION: TO DEVELOP THE SPIRITS CATEGORY INTO THE MOST DYNAMIC, INTERESTING AND EASIEST TO SHOP CATEGORY AT THE LCBO.

For the third straight year, value sales of spirits at LCBO rose significantly over the year before.

A 5.6 per cent increase followed gains of 4.8 per cent in fiscal 1999-2000 and 5.4 per cent in 1998-1999, bringing LCBO's spirits sales for fiscal 2000-2001 to $1.17 billion.

"Not that long ago, spirit sales were dropping by 5 per cent a year or more, due to changing consumer tastes, a recession, cross-border shopping and smuggling," notes Acting Category Director Shari Mogk-Edwards. "So these gains are extremely important to the LCBO – where spirits contribute more than 50 per cent of profits – as well as to our industry partners at home and abroad."

Among the factors that played a role this past fiscal year:

- LCBO retail employees know more about spirit products and are more comfortable discussing them
- suppliers have delivered appealing products, especially in premium price bands
- more customers embraced premium products
- improvements to the LCBO shopping experience have helped curtail demand for illegal products
- the weaker Canadian dollar has discouraged cross-border shopping.

Among the spirit success stories this year:

Imported whiskies have done particularly well, with value sales of single malt Scotches up 15.8 per cent; U.S. whiskey up 15 per cent; and Irish whiskey up 11.2 per cent. Canadian whisky rose 3.5 per cent; premium domestic brands have not done as well as premium imports.

Vodka continued to grow: regular vodkas were up 5.5 per cent while flavoured vodkas grew by 87.8 per cent, led by citrus-based brands such as Absolut Mandarin.

Liqueurs also did extremely well, especially fruit liqueurs – which are popular in summer – followed by coffee and nut/bean liqueurs. The segment grew by 8.6 per cent over last year, with sales to licensees particularly strong.

Cream liquors rose 16.3 per cent over last year, led by Bailey's Irish Cream, which has a strong brand following.

Rum and brandy both grew by 4 per cent, with most of the growth coming in premium price bands. Although gin sales were only up 1 per cent, Mogk-Edwards believes premium gin has tremendous upside, because "gin has a lot of flavour, and the better the gin, the better the flavour is likely to be. A greater increase may be two or three years away, but it should come."

Tequila was a fast-growing product until a global shortage took hold this fiscal year. This was due to a shortage of the Mexican blue agave plant from which tequila is made. While value sales only increased 0.47 per cent over last year, due largely to supplier price increases, volume sales are down more than 25 per cent year over year. LCBO is working hard to maintain supplies, which may not return to normal levels for four or five years, because of the long time it takes for an agave plant to reach maturity.

Breakthrough sub-category

One breakthrough sub-category this year was "Exotic Fruit Juice Spirits," the best known of which is Alizé. With a combination of intriguing product and excellent packaging, these pre-mixed cocktails have grown 23.4 per cent this year to reach sales of $3.1 million.

Another growing niche business is grappa, sales of which rose 35.7 per cent to $1 million. Attractively packaged grappas were especially popular at holiday time.

In general, gifting continues to present the category with significant opportunities for growth. This year alone, sales of spirit-based gift-packs totaled $21.2 million. The most popular gift items contained Canadian whisky, cream liquor, liqueurs, brandy or Cognac.

"Improving our warehouse inventory turns was a major objective for us," says Mogk-Edwards. "We were successful with all our categories: domestic, imported and duty-free. In fact, our turns for domestic spirits have hit an all-time high. Last year we turned them 12.8 times and this year we achieved turns of 18.1, a whopping 41.4 per cent improvement. Such a turnover has huge economic benefits to the organization and resulted in an average cost reduction of $2.54 million per period."

Looking ahead

There has been a great deal of consolidation in the beverage alcohol business in recent years. Mergers and takeovers have led to the creation of industry titans like Diageo PLC, Pernod Ricard SA and Brown-Forman Corp. Diageo PLC, the world's largest spirits company, grew even larger in 2000 when it and Pernod Ricard SA were the successful bidders for the Seagram drinks business following the merger of Vivendi SA and Universal.

"Mergers and acquisitions have affected the spirits category in the sense that the ownership of certain major brands, like Crown Royal, Absolut and Captain Morgan, have been in limbo, which impedes long-term business projections," notes Mogk-Edwards.

"We're dealing with a lot of unknowns, but we'll work with trade partners, as we always have, to offer our customers a range of products to suit every taste and budget."

Mogk-Edwards also worries that an economic downturn might hurt the business, especially in premium price bands. "There was some evidence of a downturn as our business plans for 2001-2002 were being drawn up. We may have to work a lot harder to achieve the same aggressive growth in the next fiscal year as we have the last three years."

Beers & Special Markets

MISSION: TO DELIVER THE ULTIMATE BEER EXPERIENCE.

The cold, wet spring and early summer of 2000 affected the Beers & Special Markets category, but it rebounded strongly in the latter half of the year, ending the fiscal year with sales of $565 million, up more than 11 per cent over the year before. This growth – which led the LCBO – was a significant accomplishment given how poor the weather was at the beginning of the season, according to Category Director Randi Landy.

She attributes this growth to a general demand for more premium products; a strong economy for most of the fiscal year; increased promotional activities, such as a Wheat Beer promotion; the introduction of a Premium Specialty Beer Section and a customer base that grows as "echo boomers" – the children of the first wave of baby boomers – reach legal drinking age.

The premium trend

The category's strongest performance came in beers imported from countries other than the U.S. – chiefly the Netherlands, Germany, Ireland and Poland. Brands such as Corona, Heineken, Becks, Guinness and Zywiec led this sub-category, which grew by 26 per cent over last year. "These premium beers tend not to be as affected by weather," Landy explains. "That's one reason why our category wasn't too badly affected."

By comparison, sales of domestic beer grew by 7.5 per cent and U.S. beer by 5.5 per cent.

The trend toward premium, true for both imported and domestic products, is a welcome one for a category that has historically carried higher-volume, lower-margin products.

On the domestic side, it's evident in sales of products such as Sleeman, Creemore Springs, Steam Whistle, Alexander Keith's India Pale Ale and Moosehead.

Customers who prefer microbrews and other premium products – including the echo boomers – tend to want more information on products and food-matching. The LCBO is introducing new displays to make the shopping experience more customer-friendly and informative. In some cases, product promotions – like a fruit beer promotion in May, 2001 – are being tied to articles in the LCBO's free consumer magazine, *Food & Drink.*

A great festive gift

Also contributing to the category's success this year was a new emphasis on gifting.

The number of gift-packs offered by Beers & Special Markets this holiday season increased to 20 from 12; sales rose to $1.1 million in the third quarter alone, an increase of more than 500 per cent over the previous year.

"These sales show that beer makes a great festive gift," according to Landy. "There were some very interesting beers available, at price points mostly under $15 or $20."

As its name implies, the category sells more than beer. It also sells coolers, ciders, saké, Kosher products, cocktails-to-go and accessories.

Coolers: After two years of torrid growth, cooler sales grew just 0.2 per cent this fiscal year. Bad weather likely played a role, as coolers are considered a weather-sensitive product, most often consumed at social gatherings. Cooler sales picked up considerably in mid-summer as the weather improved, with sales of $91.5 million for the fiscal year – 93.1 per cent of that coming from spirit-based coolers, the rest from wine-based (4.3 per cent) and beer-based (2.6 per cent) products.

Kosher: The LCBO offered the largest-ever number of Kosher products for Passover this fiscal year – more than 80 – including table wines, spirits, fortified and sparkling wines and liqueurs. The selection reflected the changing tastes of a more sophisticated buying public. Sales of Kosher products were up 35 per cent over last year to $3.5 million.

Cocktails-to-go: Pre-mixed cocktails were extremely successful, growing by 30 per cent – and by 48 per cent in the second half of the year – which was considerably higher than planned. Landy expects this success to continue in the year ahead.

Saké: Another growing sub-category – albeit a fairly small one – its sales rose 32 per cent to $1.5 million.

Looking ahead

Landy believes consumers will continue to trade up to premium beers, choosing flavour and quality over price and quantity. The Premium Specialty Beer Section will feature, on a rotational basis, products designed to appeal to the adventurous consumer, and encourage customers to browse longer. Some specialty beers won't necessarily achieve significant market penetration, but they will create a stir among connoisseurs eager to discover new products from around the world.

Early in fiscal 2001-2002, LCBO stores introduced a Party Zone, where customers could find products favoured for social gatherings. These included flavoured wine drinks, cocktails-to-go, ciders and coolers.

Effective in fiscal 2001-2002, Vintages – the premium products division of the LCBO – will no longer carry beers. All beer sold at the LCBO will now be purchased by Beers & Special Markets, where buyers have developed a focused expertise in this area. Consumers will still get a full range of beers to choose from; they'll just be consolidated in one category.

Vintages

MISSION: TO BE THE BEST PURCHASER, MARKETER AND RETAILER OF FINE WINE AND PREMIUM SPIRITS IN THE WORLD.

VINTAGES, the premium products division of the LCBO, continued its trend of double-digit growth in fiscal 2000-2001, increasing its sales to $128.8 million, an 11 per cent increase over the year before.

"Given how strong the millennium year was for us – a 30 per cent increase over the previous year – this was a significant achievement," says VP VINTAGES Tom Wilson.

Key to this performance was a 17 per cent increase in sales of red wine, which accounts for just under 60 per cent of VINTAGES' business. White wines also performed well: sales increased by 14.2 per cent, boosting their share of the VINTAGES wine market to 24.9 per cent.

Premium spirits sales increased by 7.4 per cent over the year before, led by an 18.9 per cent increase in sales of single malt Scotch.

Sales of beer and rosé were affected by poor weather in spring and summer, falling by 8 per cent and 1.5 per cent respectively. And sales of sparkling wine – especially premium Champagnes from France – fell sharply, largely because they could not match the increases posted during the millennium season of 1999.

France is the largest supplier of VINTAGES' wine portfolio, but its market share in fiscal 2000-2001 dropped by 7.2 per cent to 30.2 per cent. "The 1997 Bordeaux wines were not perceived as providing outstanding value," explains Wilson. "The drop in Champagne sales also explains why France lost market share."

Significant gains were made by Australia, which increased its sales by 34.3 per cent to a total of 10.2 per cent market share; Italy (sales up 26.8 per cent to 16.4 per cent market share); the U.S. (sales up 15.5 per cent to 18.4 per cent market share); and Canada (sales up 14 per cent to 7.3 per cent market share).

More than 3,100 products released

VINTAGES released more than 3,100 fine wines, spirits and beers during the fiscal year. Scores of new products are released every month in some 150 LCBO stores. Hundreds more are made available through alternate channels, such as the *Classics Catalogue*, now published three times a year. In fiscal 2000-2001, catalogue sales were $17.7 million, up 17.2 per cent over fiscal 1999-2000. The Bordeaux and Burgundy Futures programs allow consumers to buy wines before they are bottled, usually at a lower price than they would eventually pay in retail stores. This fiscal year, sales of Bordeaux futures from both the 1999 and 1998 vintages topped $9 million.

A number of year-round programs have made shopping VINTAGES more convenient and accessible. The Wines of the Month program highlights approachable products that offer excellent value. VINTAGES Essentials makes popular core products available on a continuing basis. And the Cellar Direct program helps collectors choose products suitable for ageing.

VINTAGES entered the world of e-commerce in March, 2001. Customers can now order selected wines, Champagnes and Cognacs, spirits, liqueurs and gifts for pickup at any LCBO store. "The Internet tends to draw people with similar characteristics to many of our best customers – upscale, educated and adventurous," notes Wilson. "We are testing the waters to see how it goes. By proceeding prudently, we can maximize opportunity while minimizing risk."

VINTAGES also began a direct e-mail program, called V-mail, to keep customers informed about upcoming tastings, releases, bin-end sales and other events. Customers are only added to the list if they give permission.

VINTAGES staged several successful public events this year, in both Toronto and Ottawa. These included winemakers' dinners and tastings where wine enthusiasts could sample products from upcoming *Classics Catalogue* releases – and order them on the spot if they so desired. These events have proven very popular with consumers, and provide another opportunity for VINTAGES to promote its world class portfolio and employees' product knowledge.

Looking ahead

VINTAGES plans to further develop its e-commerce model, adding greater search capability.

"We are also looking to improve services and satisfaction for licensees, based on research conducted by the Wholesale department of the LCBO's Retail division," says Wilson.

VINTAGES will continue to expand event programming, offering licensees and retail customers the opportunity to taste products before buying them – an important consideration for consumers who favour premium products.

One of Wilson's biggest concerns is product allocation. "As customers become more wine-literate, greater demand is placed on finite quantities. There is much more global demand for good wines than there was 20 years ago; we work to get better allocations of good wines, but demand inevitably exceeds supply. Then you run the risk of raising expectations only to disappoint people. So we need to increase allocations of the best products by continuing to build strong relationships with key suppliers. We must also communicate our commitment to serving Ontario's fine wine and premium spirits market and, in some cases, may need to have fair and equitable processes to better serve our best customers."

Upgrading our store network

Like other major retailers, the LCBO must constantly improve its store network, to ensure it meets customer expectations for service, selection and accessibility.

In fiscal 2000-2001, we upgraded or relocated 14 stores in Burlington, Chatham, Kitchener/Waterloo, London, Mildmay, Ottawa, Paisley, Peterborough and Toronto.

While the largest project was the new 28,000 sq. ft. flagship store in Ottawa, which opened on Rideau Street in May, 2000, many improvements came in smaller communities such as Peterborough, London and Kitchener/Waterloo.

The new Peterborough store, which opened in March, 2001, was the first outside the Greater Toronto Area and Ottawa to feature a demonstration kitchen, where customers can learn more about food, beverage alcohol and ways to match them.

Many stores serving rural areas were also improved. In Mildmay and Paisley, for example, trailer stores were converted to permanent, free-standing buildings, where customers have more space in which to shop and more products to choose from.

Improvements to the store network went beyond relocations and renovations. We installed automatic doors in more than 300 stores to make shopping easier and safer for our customers. We increased the amount of refrigeration space in hundreds of stores and installed beer cold rooms in 25 stores as a customer convenience.

Some $28 million was spent on upgrades, repairs and other improvements in fiscal 2000-2001.

Not only do these changes increase customer satisfaction: they generate incremental sales and revenues that help pay for themselves.

For example, sales at the new Rideau Street flagship store in Ottawa are up 71 per cent since its relocation. Two other stores in Nepean and Kanata that were renovated or relocated in May, 2000 have also generated respective increases of 52 and 35 per cent. Together, these stores have helped carry the City of Ottawa stores to a combined growth rate of 13 per cent, compared to a provincial rate of 5.2 per cent.

The LCBO incurs no debt when carrying out capital improvements; all projects are funded from the capital plan.

Market research conducted by our Customer Insights Group helps pinpoint the best possible locations for stores. Factors such as parking, visibility, barrier-free access, loading facilities, demographics and neighbouring stores are all considered.

In a large-scale customer survey done in February, 2001, 81 per cent of respondents said the store they shopped most frequently was conveniently located; that is up from 76 per cent in February, 1999.

Improved customer satisfaction ratings and sales indicate our upgrades are well worth the effort. So do our sales per square foot, which have increased significantly. At time of writing (May, 2001) the LCBO had fewer stores (600) than it did in 1990-1991 (621), yet annual net sales have climbed by more than $700 million since then. By consolidating underperforming stores, and by locating new stores where our customers want to shop – with all the products and services they expect under one roof – our network has become more efficient, profitable and customer-friendly.

Over the next two years, we plan to improve the store network as follows:

- Flagship stores: range up to 25,000 square feet or more and are located in large urban centres, carrying a global assortment of LCBO General List and VINTAGES products. They also offer a complete range of LCBO customer services and special events, including demonstration kitchens; VQA sections; listening stations where customers can preview music to round out their party atmosphere; a computer terminal where "surfers" can look up product information on the Internet; and a gift centre. Staff at new flagship stores undergo intensive training to ensure they can provide the knowledgeable service their customers may expect. One flagship store opened in fiscal 2000-2001 in Ottawa. Three more are expected to open over the next two years.
- Full-service stores: up to 20,000 square feet in major and medium-sized urban markets, these stores provide a wide assortment of products (2,500-3,000), a gift centre, and a VINTAGES boutique carrying 500-800 brands. They also offer special events to suit the specific market. One opened in fiscal 2000-2001; another 15 are planned over the next two years.
- New IMAGE stores: at 7,000-10,000 square feet, these stores carry 1,800-2,000 General List products and have a VINTAGES boutique with up to 500 brands. They are found in both major and smaller urban markets. Six opened in fiscal 2000-2001; up to 33 are planned over the next two years.
- Mini-stores and kiosks: at 600-3,000 square feet in high-traffic shopping areas, these stores are designed to close the gap in under-serviced areas or target specific niche markets, like our Chinese kiosk in Markham and our Kosher kiosk in Thornhill. Mini-stores offer 500 of the most popular brands from the General List and VINTAGES. Five opened in fiscal 2000-2001; another nine are planned over the next two years.

These improvements will take place in major centres, such as Toronto; nearby communities such as Maple and Richmond Hill; markets such as St. Catharines, Windsor, Kingston and London; and smaller communities, such as Alliston, St. Thomas and Cobourg.

By paying close attention to what its customers want, the LCBO will continue to improve its retail network to increase profitability, and to meet and exceed expectations in every market it serves.

LCBO awards

Since 1990, the LCBO has received some 80 awards for customer service, staff training and development, store design, advertising, innovative retailing, corporate communications and social responsibility.

We added to this impressive total in fiscal 2000-2001, as the Ontario Chamber of Commerce named LCBO one of the Outstanding Businesses of the Year for 2000.

The LCBO was one of five companies honoured by the Chamber of Commerce, which described the winners as "Ontario's best and brightest."

In accepting the award, Chair and CEO Andrew S. Brandt said it was a tribute to the work of all LCBO employees, the business savvy of our Board Members and the support of the Government of Ontario for modernizing services. He also singled out Executive Vice President and Chief Operating Officer Larry Gee for his leadership, vision and role in creating positive change.

Other awards received in the fiscal year included two Excellence in Retail (ERA) Awards from the Retail Council of Canada. Our Holiday Celebrate 1999 Campaign won a Retail Advertising award, while the staff-training program WOW – Uncork the Knowledge won an Excellence in Customer Service award.

The LCBO was a finalist in four other categories: Retail Marketing, Online Retailing, New Retailing Concept (for its Millennium kiosks) and Innovative Retailer of the Year.

The LCBO has won eight ERA awards since 1996, including Innovative Retailer of the Year in 1997 and 1998, and Socially Responsible Retailer of the Year in 1997.

In design competitions, the LCBO won three awards for its flagship store on Rideau Street in Ottawa; another for our full-service store in Nepean's Crossroads Centre; two for a Millennium kiosk at the Sherway Gardens Mall in Etobicoke; and one for a holiday kiosk in Newmarket's Upper Canada Mall.

The LCBO has now won more than 35 awards for store design alone in the last decade.

LCBO was also honoured for two internally produced staff-training videos this fiscal year:

- *Shelf Talk: Wines of Ontario*, developed to help employees learn more about the award-winning wines of Ontario, won a Silver Leaf Award from the International Association of Business Communicators (Canada).
- *Shoptheft 101. Protect Your Store. Protect Yourself*, created to increase employee awareness of shoptheft and what they can do to prevent it, while ensuring their safety and that of colleagues and customers, won a Gold Medal in the Safety/Security category at the New York Festivals, along with a nomination as Best in Show; it also received a Bronze Medal at the Canadian Corporate Television and Video festival.

Multi-Channel marketing

The vision of the LCBO is to be Ontario's Source for Entertaining Ideas. That means being more than a place where people come to buy beverage alcohol, says Nancy Cardinal, VP Marketing Communications. "It's the place they look to for the right gift for holidays and other occasions; the first place that comes to mind when they are planning dinner with friends, a wedding or other gathering."

Research shows that many LCBO customers – especially its best customers – are busier than ever, striving to balance responsibilities at work and at home. "We want to be part of the solution, by offering a simple, convenient yet informative shopping experience," Cardinal affirms.

The LCBO vision first took root in our free consumer publication, *Food & Drink*. Each issue informs readers about food, drink, décor and music, to help them entertain adventurously, yet with ease. It has become so popular that its print run has been increased from 300,000 copies per issue to 500,000, and we now publish six issues a year instead of four.

Now LCBO is bringing *Food & Drink* to life in our stores, where displays change every two months to reflect the content of the current issue. The magazine's style and content also help shape many in-store events, catalogues, advertising, CD compilations and our Internet site.

Customers today can expect greater consistency in displays and product location, no matter which store they visit. Every point of contact between the LCBO and its customers should encourage browsing and learning, says Cardinal. "We want them to be knowledgeable and comfortable about buying and serving beverage alcohol."

Looking ahead

Of all the channels involved in bringing *Food & Drink* to life, the Internet could be the most exciting, says Cardinal. "Visitors can already access some recipes from the current issue. We anticipate they'll be able to access far more than that as we improve our site over the coming months."

The LCBO also plans to build on the success of last year's gifting program, which featured many popular items pre-wrapped in festive colours for customer convenience. Sales of gift items in fiscal 2000-2001 rose by 51 per cent over the year before, and the percentage of customers surveyed who say the LCBO inspires gift-giving more than doubled, from 20 per cent to 43 per cent. "We see tremendous opportunity here," Cardinal says. "Whether it's Christmas, Valentine's Day, Mother's Day or Father's Day, today's harried shopper is looking for help in finding the right gift for friends and family. This is one more area where today's LCBO can be part of their solution."

Many in-store displays are inspired by Food & Drink, the LCBO's popular consumer magazine.

Staff training

LCBO research shows that a key determinant of customer satisfaction is friendly, knowledgeable employees who can answer questions about beverage alcohol, food-matching, gifts and entertaining ideas.

As customers' own knowledge, sophistication and interest grows, it becomes ever more challenging for frontline employees to meet their heightened expectations. That's why the LCBO develops training programs to increase employees' understanding of the products we sell, and their comfort level in discussing them with customers.

One milestone in fiscal 2000-2001 was WOW 2000 – From Vines to Wines, developed by LCBO and industry partners. Under this program, some 6,000 full- and part-time employees from across the province visited wineries in one of Ontario's designated wine regions: Niagara, Lake Erie North Shore or Pelee Island. They met winemakers and sampled award-winning products along with complementary foods.

The staff training program WOW 2000 – From Vines to Wines helped LCBO Customer Service Representatives like Jim Tsetsekas become more comfortable discussing the merits of Ontario wines with customers.

Product knowledge programs such as this not only enhance customer satisfaction; they contribute to the bottom line. A similar program called That's the Spirit, developed by the LCBO and partners in the distilling industry, helped reverse a precipitous decline in the spirits category in the mid-1990s.

The LCBO also improved its financial assistance program for employees who want to take continuing education courses at colleges and universities that would improve their knowledge, skills and abilities in their present job, or one to which they might logically aspire. The LCBO reimburses employees upfront the full cost of approved courses.

Other training programs in fiscal 2000-2001 included a Leadership Excellence Action Program (LEAP) designed to help LCBO's leaders enhance their judgment, and communication and decision-making skills. A number of courses – combining classroom sessions, self-study materials and online learning – will be launched in fiscal 2001-2002.

The LCBO also used video-based training to help employees learn more about products from around the world, workplace safety issues and ways to prevent theft in stores.

Looking ahead

All LCBO Retail employees must take a three-level Product Knowledge Correspondence Course to ensure they can help customers find the right product for any occasion or budget. In fiscal 2001-2002, the LCBO will launch a Service Knowledge Correspondence Course to help increase employees' ability to impart product knowledge to customers. The program supports the LCBO's strategic objective of having the right employees in the right place, with the right skills and attitudes; of making every Retail employee a customer service specialist, and every customer an informed shopper.

Quality assurance

The primary goal of the LCBO Quality Assurance (QA) department is to ensure all products sold by the LCBO are safe to drink and of the highest quality.

Employees test all new products to ensure they are free of contaminants and defects; that they are tamper-resistant; and that their labels comply with federal guidelines. In fiscal 2000-2001, some 330,000 tests were conducted on 13,785 products. The QA department also arranged nearly 5,000 tastings of products to ensure they met high standards set by the LCBO, and, where applicable, the Vintners Quality Alliance Ontario (VQAO).

Quality Assurance performs other vital functions for the LCBO and its stakeholders.

Many researchers believe beverage alcohol – especially red wine – may protect moderate drinkers against heart disease and some forms of cancer. QA Director George Soleas and researchers at the University of Toronto and Mount Sinai Hospital have led several studies in these areas. This past fiscal year, the research team explored the cancer-fighting properties of compounds in red wine and is now studying how well they are absorbed by humans.

In collaboration with suppliers, agents and the Canadian Food Inspection Agency, QA is building a database on potential allergens in beverage alcohol products, such as liqueurs made with nuts or chocolate.

The lab tests samples seized by enforcement agencies and assists in confirming whether products were illegally manufactured or smuggled into Ontario. Employees are often called as expert witnesses in provincial court or at licensing hearings held by the Alcohol and Gaming Commission of Ontario.

Quality Assurance re-engineered its Laboratory Information Management System (LIMS) so that all its results are electronically input into a database.

Quality Assurance laboratory technician Dorina Brasoveanu runs one of the more than 330,000 tests conducted on 13,785 products in fiscal 2000-2001.

This increases efficiency, reduces the potential for human error, and allows data to be shared electronically with clients.

Quality Assurance helped pave the way to greater European Union (EU) access for domestic Icewines. The EU requires analyses above and beyond what is done for the Ontario marketplace. Working with colleagues in LCBO Corporate Policy and the VQAO, Soleas and his team helped develop the form that provides these analyses.

The laboratory is also asked to test products for other Canadian liquor jurisdictions and for suppliers. Fees for these services help offset the costs of new equipment.

ISO accreditation

In July, 2001, Quality Assurance received accreditation under ISO-9001-2000 and under ISO/IEC-17025, a designation specific to chemistry laboratories.

Accreditation means QA certificates of analysis should be recognized internationally, creating greater export opportunities for domestic products.

Social responsibility

The LCBO works hard to improve the products and services it offers consumers and to maximize the profits it delivers to the Government of Ontario to support social programs, services and capital projects. But we also work equally hard – alone and in partnership with other organizations – to promote social responsibility, and make a difference in every community we serve.

We do this by refusing to serve minors or customers who appear intoxicated; by creating and distributing other materials on responsible hosting and consumption; by creating advertising aimed at deterring impaired driving; by raising funds for MADD Canada and other organizations; and by conducting our business in an environmentally responsible fashion.

Here are some of the initiatives undertaken in fiscal 2000-2001 in these areas.

Challenge and Refusal: All LCBO Retail employees are trained to challenge and refuse service to anyone who appears to be impaired or who appears underage and cannot produce valid ID. They also challenge "second-party purchasers" – those believed to be buying alcohol for minors or people already impaired. In fiscal 2000-2001, LCBO employees challenged 1,148,646 customers, 26 per cent higher than the year before. Just under 80,000 were refused. Most challenges (97.5 per cent) were age related.

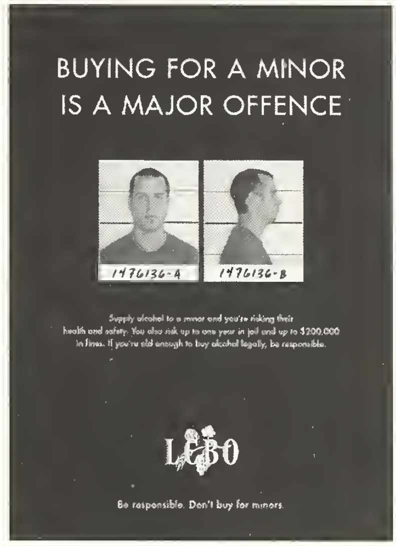
Promoting responsible consumption: The LCBO believes beverage alcohol is best enjoyed in moderation and reinforces that message wherever possible. We also offer many low-alcohol wines, beers and spirits, and set minimum prices for products to encourage responsible consumption. All LCBO shopping bags contain a responsible drinking message, as do display screens on many point-of-sale terminals. Many LCBO staff also distribute social responsibility materials at licensee trade shows, consumer shows and festivals.

One of our most successful initiatives this year was the development of a colourful *Mocktail Guide*, containing recipes for delicious non-alcoholic drinks. Designed to appeal to designated drivers and responsible hosts looking for alternatives to alcoholic drinks, the guide received extensive publicity, with dozens of newspapers across the province running stories, recipes and follow-up interviews with LCBO product consultants. Media in Prince Edward Island, Quebec, Saskatchewan, Alberta and B.C. also reported on the guide, as did the national CTV program *Canada AM*.

Many LCBO store managers are asked by high school officials to provide alcohol-related information and, on occasion, to address students about the LCBO and its commitment not to serve minors. To help them fulfill this role, we provided all LCBO store managers with comprehensive kits containing fact sheets and brochures developed by the LCBO and organizations such as the Centre for Addiction and Mental Health, the Road Safety Office of the Ministry of Transportation and Ontario Students Against Impaired Driving. By giving students information specifically geared to them, the LCBO hopes to help them make smart, healthy choices about alcohol.

Because our Retail staff challenge and refuse service to so many minors, some teens ask older people to buy alcohol on their behalf. This fiscal year, we launched our first public campaign against second-party purchases. In-store posters reminded customers that "Buying for a Minor is a Major Offence" with severe penalties attached. It ran in stores in the fall of 2000 and again in May and June of 2001, in time for prom season and summer long weekends.

Advertising: In June, 2000, the LCBO launched a year-long $2.4 million social responsibility campaign aimed at the group most likely to be charged as a result of RIDE roadside checks: males aged 25-34 who are moderate drinkers and believe they can drive safely after consuming a few drinks. Campaign elements included powerful television and radio commercials reminding people that drinking and driving is no accident – it's a choice – and that making the wrong choice can be devastating for the drinking driver, his or her family, and innocent victims. Edgy, humorous posters took a similar message to a venue where they couldn't be missed by the target audience: the men's washrooms of sports bars, roadhouses and campus pubs. Independent research shows the campaign achieved good awareness levels, and that the target group feels the LCBO has a legitimate role to play in promoting the responsible use of alcohol.



This in-store poster reminded LCBO customers it is against the law to buy alcohol for minors.

Customer Service Representative Ken Quinto performs an ID check. More than one million would-be customers were challenged in fiscal 2000-2001 because they could not provide valid ID or appeared intoxicated.

Fundraising: As part of its commitment to the communities it serves, the LCBO raises hundreds of thousands of dollars a year for the United Way and other charities. In the fall of 2000, the LCBO raised $143,000 for the United Way through employee donations and other special events. Our donation box program raised another $454,000 for national and provincial organizations, including Mothers Against Drunk Driving ($43,000). We also raised $83,000 for We Care, an organization that helps send children with disabilities to summer camp; $33,000 for Camp Oochigeas, which provides getaways to kids with cancer; and $56,000 for charity through the sales of promotional compact discs in our stores. Other monies come from in-store tastings, gift-wrapping services, local donation box drives in January and June and other events on behalf of local charities.

Environment: The LCBO works on a number of fronts to improve Ontario's environment. Stores recycle old corrugated cardboard; Head Office recycles fine paper, polystyrene, bottles, cans, newspapers, data tapes and other materials. We use remanufactured toner and fax cartridges; encourage suppliers to minimize their packaging; and contribute to non-profit environmental organizations such as the Composting Council, Recycling Council of Ontario and Pollution Probe. We also contributed $4 million in fiscal 2000-2001 – and $13 million over the past three years – to help fund and improve the effectiveness of municipal Blue Box and other waste reduction and diversion programs.

Public Sector Disclosure Act

The *Public Sector Disclosure Act*, passed by the Ontario Legislature in 1996, is designed to make the public sector more open and accountable to taxpayers. The Act requires Ontario's public sector organizations, including the LCBO, to disclose annually the names, positions, salaries and taxable benefits of employees whose employment income is $100,000 or more a year. In keeping with the requirements of the Act, the LCBO submits the following information for calendar 2000.

There are 34 LCBO names on this year's *Public Sector Disclosure Act* list, compared to 29 the year before. This increase is due in part to the fact that a number of employees in Information Technology received Y2K retention bonuses to ensure they stayed through the critical months leading up to the new millennium as well as the 2000 Leap Year. Some directors also appear on the list for the first time owing to their years of service, the fact they have reached the top of their pay ranges and because they opted to take unused Management Compensation Option (MCO) days as cash in lieu of days off. Management and excluded staff are eligible to receive five MCO days a year. Several directors were also promoted to Vice President or Executive Director during the fiscal year, which resulted in pay increases.

Name	Position	Employment Income	Taxable Benefits
Bonic, Jacqueline	VP, Store Development & Real Estate	$121,382.04	$336.16
Brandt, Andrew	Chair & CEO	$104,049.79	$332.74
Browning, J. Alex	Sr. VP, Finance & Administration	$144,086.48	$401.70
Buck, Peter	Director, Human Resource Services	$114,982.29	$334.80
Burns, Tamara	Category Director, Wines	$105,270.61	$316.60
Cardinal, Nancy	VP, Marketing Communications	$114,607.04	$336.16
Chu, Hang-Sun	Sr. System Analyst	$102,143.52	$217.00
Clute, Peter	Exec. Director, Corp. Affairs	$110,282.23	$359.50
Denomme, David	Solicitor	$109,926.29	$334.80
Downey, Robert	Category Director, Spirits	$111,832.19	$330.76
Dutton, Rob	Director, Fin. Planning & Econ. Dev.	$114,982.29	$334.80
Ecker, Roy	Director, Central Region	$116,582.04	$336.16
Fisher, Ron	Director, Western Region	$117,392.29	$354.40
Fitzpatrick, Mary	Sr. VP, Gen. Counsel, & Corp. Secretary	$144,086.48	$401.70
Flynn, Larry	Sr. VP, Merchandising	$124,551.84	$376.46
Gee, Larry	Executive VP & COO	$206,162.68	$528.56
Green, Michael	Solicitor	$111,625.29	$334.80
Hicks, William	Director, Durham Facility	$108,925.77	$473.68
Holloway, Brian	Director, Application Systems	$110,235.93	$307.84
Kane, Murray	Sr. VP, Human Resources	$144,086.48	$401.70
Kelly, Hugh	Sr. VP, Information Technology	$166,508.48	$401.70
Kennedy, William	Exec. Director, Corp. Communications	$116,582.04	$336.16
Ker, Gerry	Director, Corporate Policy	$114,982.29	$334.80
Lyons, Carol	Controller	$103,923.06	$334.80
Marshall, David	Director, Northern Region	$112,415.29	$1,213.80
Martin, John	Sr. VP, Logistics	$141,717.25	$401.70
McGrath, Bruce	Sr. System Analyst	$107,408.24	$219.34
Murphy, Peter	Director, Conventional Warehousing	$103,742.57	$313.38
Ramsay, Gary	Director, Application Systems	$108,290.83	$328.14
Sherwood, Garfield	Sr. VP, Retail	$144,086.48	$401.70
Stanley, Thomas	Mgr., Information Resource Mgmt.	$101,347.86	$255.62
Tughan, William	Director, Resource Protection	$100,656.07	$293.22
Wilson, Thomas	VP, Vintages	$116,582.04	$336.16
Zachar, Wayne	Director, Employee Relations	$111,204.65	$331.78

Responsibility for financial reporting

The accompanying financial statements of the Liquor Control Board of Ontario have been prepared in accordance with accounting principles generally accepted in Canada, and are the responsibility of management. The preparation of financial statements necessarily involves the use of estimates based on management's judgment, particularly when transactions affecting the current accounting period cannot be finalized with certainty until future periods. The financial statements have been properly prepared within reasonable limits of materiality and in light of information available up to June 11, 2001.

Management is responsible for the integrity of the financial statements and maintains a system of internal controls designed to provide reasonable assurance that the assets are safeguarded and that reliable financial information is available on a timely basis. The system includes formal policies and procedures and an organizational structure that provides for appropriate delegation of authority and segregation of responsibilities. An internal audit function independently evaluates the effectiveness of these internal controls on an ongoing basis and reports its findings to management and the Audit and Governance Review Committee of the Board.

The Board, through the Audit and Governance Review Committee, is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal controls. The Audit and Governance Review Committee, comprised of three Members who are not employees/officers of the LCBO, meets periodically with management, the internal auditors and the Provincial Auditor to satisfy itself that each group has properly discharged its respective responsibility, and to review the financial statements before recommending approval by the Board.

The financial statements have been audited by the Provincial Auditor. The Provincial Auditor's responsibility is to express an opinion on whether the financial statements are fairly presented in accordance with generally accepted accounting principles. The Auditor's Report, which appears on page 50, outlines the scope of the Auditor's examination and opinion.

On behalf of management:

J. C. Browning

J. Alex Browning
Senior VP Finance & Administration, and Chief Financial Officer

Financial overview

The following table lists three of the most important variables related to the operations of the LCBO: number of stores, permanent employees and regular products listed.

Operations

	1997	1998	1999	2000	2001
Number of LCBO Stores	595	596	600	602	601
Number of Permanent Employees	2,828	2,934	3,014	3,074	3,174
Number of Regular Products Listed	2,960	3,098	3,366	3,496	3,478

The critical financial variables of net sales and other income, operating expenses and net income are given in the following table.

Financial (values in $000s)

	1997	1998	1999	2000	2001
Net Sales and Other Income	2,013,873	2,160,843	2,349,832	2,549,458	2,734,937
% change/previous year	5.45%	7.30%	8.75%	8.50%	7.28%
Operating Expenses	324,457	351,653	374,558	414,861	468,090
As a % of Net Sales & Other Income	16.11%	16.27%	15.94%	16.27%	17.12%
Net Income	701,030	744,904	809,425	845,694	876,272
As a % of Net Sales & Other Income	34.81%	34.47%	34.45%	33.17%	32.04%

Note: The LCBO refers to sales in three different ways: first, gross sales which include the Federal Goods and Services Tax and the Provincial Sales Tax; second, net sales which exclude the two sales taxes and any relevant discounts (e.g., the discounts provided to licensees by the LCBO); and third, net sales also excluding any sales through the LCBO Private Stock Program. The Net Sales and Other Income line listed in the table consists of net sales plus any other income (e.g., interest on investments). Gross sales are given in the LCBO Sales Channel Summary on page 44.

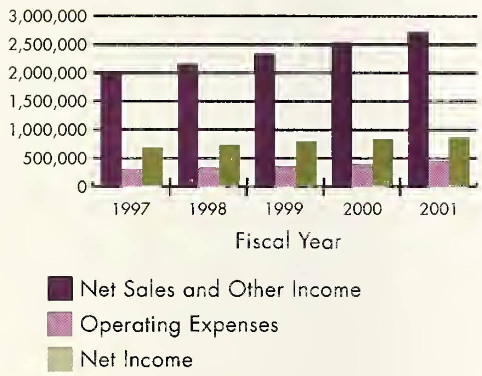
Breakdown of Operating Expenses (values in $000s)

	1997	1998	1999	2000	2001
Salaries and Benefits	203,699	218,631	231,486	244,399	266,929
Depreciation	22,167	24,666	25,580	29,582	40,546
Other Expenses	98,591	108,356	117,492	140,880	160,615
Total Operating Expenses	324,457	351,653	374,558	414,861	468,090

Key Indicators: 1997-2001

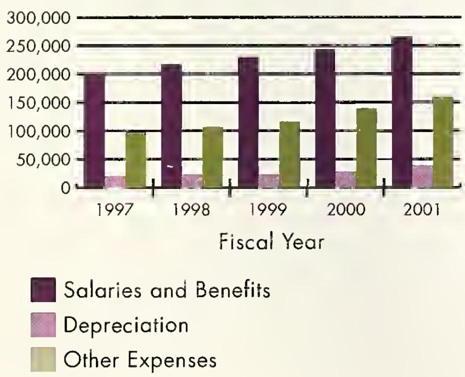
Financial Indicators: 1997-2001

(values in $000s)



Operating Expenses: 1997-2001

(values in $000s)



The following tables show the breakdown of LCBO revenue payments for the last five years to the federal, provincial and municipal governments.

Treasurer of Ontario

	1997	1998	1999	2000	2001
Remitted by the Liquor Control Board: on account of profits	730,000	745,000	780,000	800,000	850,000
Remitted by the Liquor Control Board: Ontario Retail Sales Tax on sales through liquor	192,357	202,148	220,645	239,071	255,347
Remitted by the Alcohol and Gaming Commission:* on account of licence fees and permits	520,829	505,656	519,472	537,569	524,110
Remitted by others:** Ontario Retail Sales Tax on sales through Brewers Retail stores and Ontario winery retail stores	157,582	160,321	168,281	177,406	177,302
Ontario Retail Sales Tax on sales through agency stores	2,565	2,839	3,305	3,672	3,847
Total	**1,603,333**	**1,615,964**	**1,691,703**	**1,757,718**	**1,810,606**

* The Alcohol and Gaming Commission of Ontario (AGCO), Brewers Retail Inc. and Ontario winery stores are separate, non-LCBO businesses.

** Revenue payments from these entities are recorded by the LCBO and presented here in the interest of providing a global perspective of beverage alcohol retailing in Ontario.

Receiver General for Canada

	1997	1998	1999	2000	2001
Remitted by the Liquor Control Board: Excise taxes and Customs duties	239,058	247,413	249,639	267,137	278,430
Goods and Services Tax	64,672	68,642	66,192	69,718	79,056
Remitted by others: Excise taxes, GST and other duties/taxes	342,763	329,802	333,407	367,637	361,917
GST remitted on sales through agency stores	1,496	1,656	1,928	2,142	2,244
Total	**647,989**	**647,513**	**651,166**	**706,634**	**721,647**

Ontario Municipalities

	1997	1998	1999	2000	2001
Remitted by the Liquor Control Board: grants in lieu of realty and business taxes	5,816	5,897	3,680	3,569	3,671
Total Revenue Payments	**2,257,138**	**2,269,374**	**2,346,549**	**2,467,921**	**2,535,924**

Note: These amounts do not include corporation, realty and business taxes paid by distilleries, wineries, breweries and licensees. Ontario Retail Sales Tax collected by the licensees and agency stores on sales of beverage alcohol is excluded from these figures. The 2001 figures for Remitted by others are slightly understated due to several brewers not reporting financial information at the time of publication. Ontario Retail Sales Tax and Goods and Services Tax remitted on sales through agency stores are estimates.

LCBO Volume Sales (in 000s Litres)

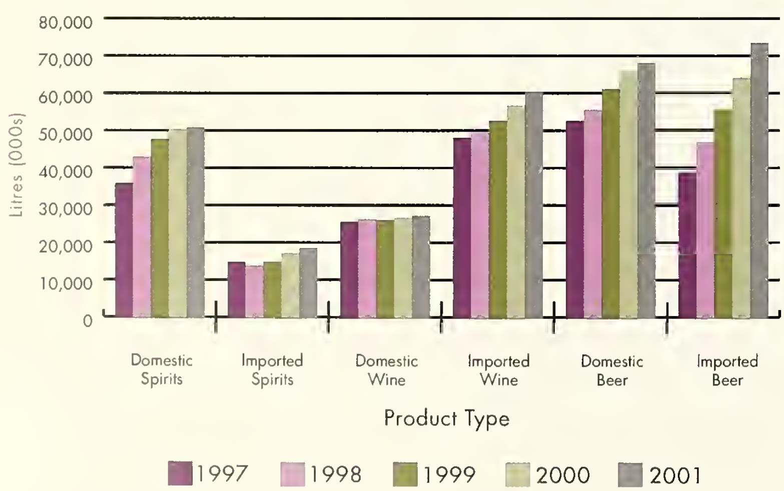
Product Type	1997	1998	1999	2000	2001
Domestic Spirits	30,615	31,015	31,834	33,310	34,286
Domestic Spirit Coolers	5,556	12,150	16,168	17,361	16,789
Imported Spirits	15,097	14,059	15,175	17,491	18,851
Total Spirits	**51,268**	**57,224**	**63,177**	**68,162**	**69,926**
Domestic Wine	24,957	25,845	25,795	26,523	26,958
Domestic Wine Coolers	895	718	544	489	499
Imported Wine	48,328	49,617	52,952	57,010	60,626
Total Wine	**74,180**	**76,180**	**79,291**	**84,022**	**88,083**
Domestic Beer	52,861	55,763	61,377	65,618	67,677
Domestic Beer Coolers	20	24	38	339	627
Imported Beer	39,021	47,082	55,827	64,451	73,756
Total Beer	**91,902**	**102,869**	**117,242**	**130,408**	**142,060**
Total Domestic	**114,904**	**125,515**	**135,756**	**143,640**	**146,836**
Total Imported	**102,446**	**110,758**	**123,954**	**138,952**	**153,233**
Total	**217,350**	**236,273**	**259,710**	**282,592**	**300,069**

Product Type	1997	1998	1999	2000	2001
Sales by Ontario Winery Stores	14,411	14,838	13,878	14,074	14,961
Sales by Brewers Retail & On-site Stores	653,106	654,284	654,413	663,806	643,721

Note: LCBO beer sales figures include LCBO sales to Brewers Retail Inc. The 2001 figures for sales by BRI and on-site stores are unaudited and understate total sales due to several brewers not reporting financial statements at the time of publication.

Share of Volume Sales

LCBO Volume Sales by Product Type: 1997-2001



Note: In this chart, Domestic Spirits, Domestic Wine and Domestic Beer include sales of Coolers.

Share of Value Sales

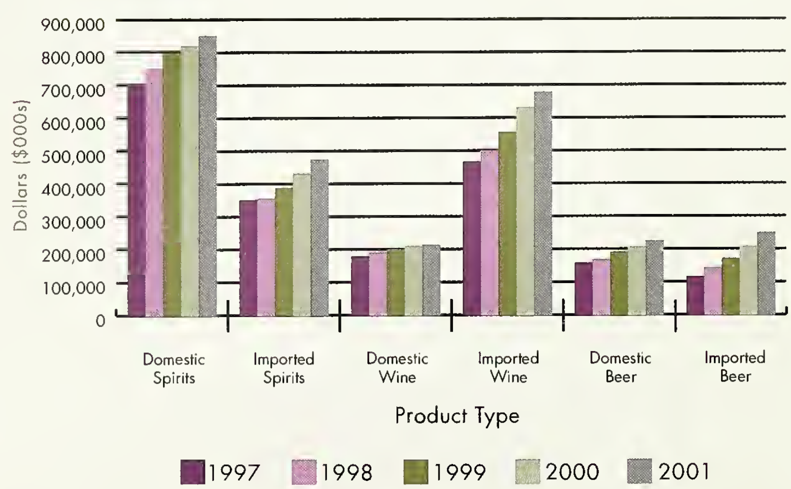
LCBO Value Sales (in $000s)

Product Type	1997	1998	1999	2000	2001
Domestic Spirits	680,092	691,165	717,270	739,313	771,487
Domestic Spirit Coolers	27,893	61,093	80,716	84,579	82,354
Imported Spirits	354,929	358,363	391,872	435,093	476,972
Total Spirits	**1,062,914**	**1,110,621**	**1,189,858**	**1,258,985**	**1,330,813**
Domestic Wine	178,563	190,809	201,723	211,595	214,443
Domestic Wine Coolers	3,209	2,612	1,976	1,797	1,954
Imported Wine	469,803	503,290	559,624	635,112	680,993
Total Wine	**651,575**	**696,711**	**763,323**	**848,504**	**897,390**
Domestic Beer	160,544	170,538	194,149	208,882	225,612
Domestic Beer Coolers	67	83	144	1,035	2,076
Imported Beer	118,567	145,326	174,284	210,815	252,221
Total Beer	**279,178**	**315,947**	**368,577**	**420,732**	**479,909**
Total Domestic	**1,050,368**	**1,116,300**	**1,195,978**	**1,247,201**	**1,297,926**
Total Imported	**943,299**	**1,006,979**	**1,125,780**	**1,281,020**	**1,410,186**
Non-Liquor	**3,124**	**3,479**	**3,914**	**5,389**	**6,213**
Total	**1,996,791**	**2,126,758**	**2,325,672**	**2,533,610**	**2,714,325**

Product Type	1997	1998	1999	2000	2001
Sales by Ontario Winery Stores	106,257	114,805	111,765	118,219	123,739
Sales by Brewers Retail	1,804,847	1,858,377	1,937,004	2,021,111	2,062,297

Note: Value sales listed above for the LCBO and Ontario winery stores consist of net sales. Sales values for Brewers Retail Inc. consist of net sales plus GST. Category totals provided here include sales through VINTAGES and the LCBO Private Stock Program, and therefore do not match the totals found in the Product Trends sections of this Annual Report.

LCBO Value Sales by Product Type: 1997-2001



Note: In this chart, Domestic Spirits, Domestic Wine and Domestic Beer include sales of Coolers.

Product Listings

	1997	1998	1999	2000	2001
Domestic					
Spirits	463	516	539	518	542
Wine	533	518	538	536	499
Beer	330	346	385	403	407
Imported					
Spirits	484	542	601	586	641
Wine	938	963	1,085	1,192	1,113
Beer	212	213	218	261	276
Total Regular Listings	**2,960**	**3,098**	**3,366**	**3,496**	**3,478**
VINTAGES Wines and Spirits	2,744	3,037	3,235	3,569	3,108
Duty-Free Listings	205	213	210	235	212
Consignment Warehouse and Private Stock	4,573	5,240	5,241	6,106	6,225
Total Product Listings	**10,482**	**11,588**	**12,052**	**13,406**	**13,023**

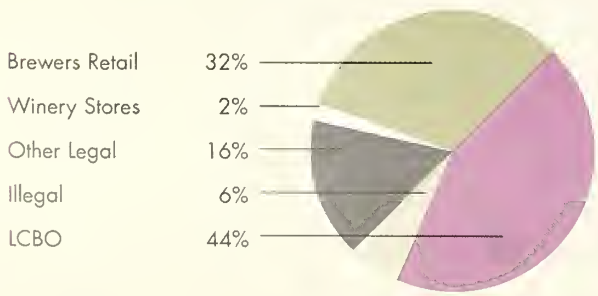
Note: The total number of regular products listed has been restated to reflect products listed for the entire fiscal year, rather than products listed in the LCBO Winter Price Book, as had previously been the case. Product listing figures for Consignment Warehouse and Private Stack are estimates based on invoices produced by Specialty Services. The total does not include products delisted during the fiscal year.

LCBO Sales Channel Summary (in $000s)

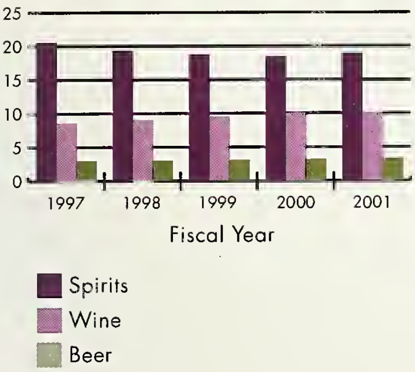
	1997	1998	1999	2000	2001
LCBO Total Sales	2,342,998	2,493,935	2,725,858	2,967,710	3,177,916
Brewers Retail Total Sales	2,075,664	2,114,467	2,214,918	2,324,225	2,381,289
Winery Retail Stores Total Sales	126,553	136,618	133,001	140,681	147,178
Other Channels:					
Legal	801,799	861,708	888,670	941,465	1,000,660
Homemade	59,945	60,918	63,567	59,070	49,025
De-alcoholized Beer	19,217	17,708	23,872	22,314	20,870
Illegal	620,175	583,780	542,896	455,801	405,918
Grand Total	**6,046,351**	**6,269,134**	**6,592,782**	**6,911,266**	**7,182,856**

Note: All figures above are shown in gross sales. The numbers included in the Other Channels category are estimates. LCBO and Brewers Retail Inc. figures are slightly overstated due to reciprocal sales included in the totals. These sales are excluded in the chart below.

Value by Sales Channel



Average Retail Prices per Litre 1997-2001



Average LCBO Retail Prices

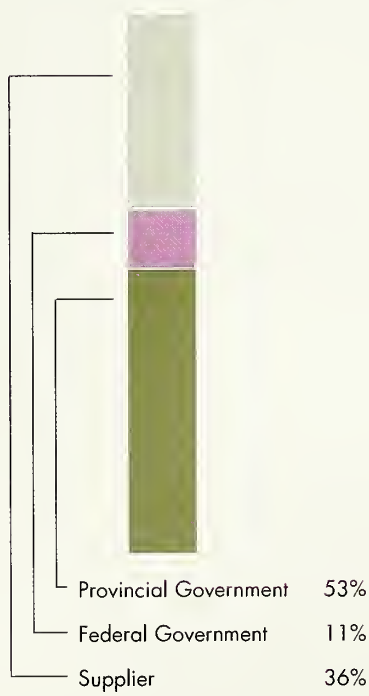
Product Type	1997	1998	1999	2000	2001
Spirits	$20.65	$19.41	$18.83	$18.47	$19.03
Wine	$8.67	$9.15	$9.63	$10.10	$10.19
Beer	$3.03	$3.07	$3.14	$3.23	$3.38
Average Transaction Value per Customer	**$26.69**	**$27.40**	**$28.07**	**$29.55**	**$30.51**

Note: Retail prices exclude GST and PST.

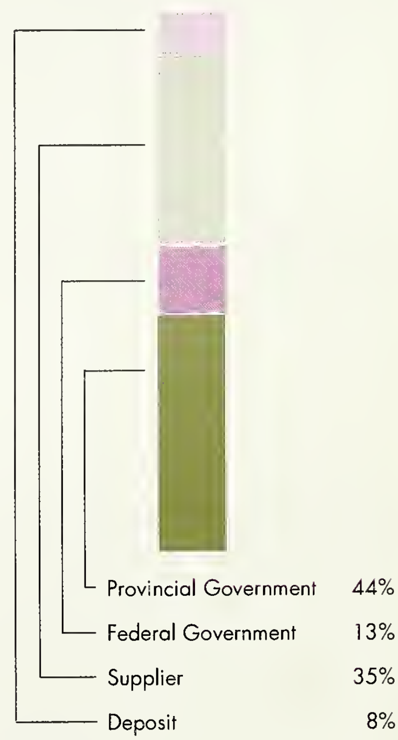
Revenue Distribution

SPIRITS

WINE



BEER



The following table shows LCBO volume sales by category for fiscal 2000-2001.

Product Category Share

Canadian Spirits	1997	1998	1999	2000	2001
Canadian Whisky	39.9%	33.5%	30.4%	29.9%	30.3%
Canadian Rum	18.3%	15.6%	14.5%	14.5%	14.7%
Canadian Vodka	17.1%	15.4%	14.3%	14.2%	14.6%
Spirit Coolers	15.4%	28.1%	33.5%	34.3%	32.9%
Canadian Dry Gin	3.2%	2.5%	2.2%	2.1%	2.1%
Other	6.1%	4.9%	5.1%	5.0%	5.4%

Imported Spirits	1997	1998	1999	2000	2001
Scotch	23.0%	25.1%	23.8%	22.0%	20.2%
Liqueur	17.9%	19.1%	18.7%	18.2%	17.8%
Miscellaneous Liquors	11.9%	13.9%	13.2%	13.5%	13.6%
Vodka	11.0%	12.4%	13.9%	15.5%	16.0%
French Brandy	8.0%	9.3%	9.4%	9.0%	8.8%
Spirit Coolers	10.1%	0.9%	0.1%	0.6%	2.5%
Other	18.1%	19.3%	20.9%	21.2%	21.1%

Canadian Wines	1997	1998	1999	2000	2001
White Table	51.3%	49.2%	48.6%	48.4%	48.4%
Red Table	18.3%	20.5%	22.3%	24.1%	25.7%
7% Sparkling	6.3%	6.0%	6.1%	6.2%	5.6%
Sherry	5.0%	5.5%	4.5%	4.4%	4.5%
Wine Coolers	3.5%	3.7%	3.8%	1.8%	1.7%
Other	15.6%	15.1%	14.7%	15.1%	14.1%

Note: the wine cooler figure for 2000 has been restated to net out flavoured wine drinks from the cooler category.

Imported Wines	1997	1998	1999	2000	2001
White Table	46.7%	43.8%	42.3%	39.6%	37.6%
Red Table	39.0%	42.1%	43.2%	44.4%	46.3%
Champagne	3.7%	3.8%	4.1%	4.6%	3.5%
Sherry	2.2%	2.0%	1.3%	1.1%	1.0%
Other	8.4%	8.3%	9.1%	10.3%	11.6%

Canadian Beer	1997	1998	1999	2000	2001
Ontario Beer	94.3%	93.5%	92.4%	91.3%	88.4%
Other Canadian Beer	5.7%	6.5%	7.6%	8.7%	11.6%

Imported Beer	1997	1998	1999	2000	2001
U.S. Beer	42.8%	42.1%	41.8%	36.9%	31.0%
Other Imported Beer	56.9%	57.6%	57.9%	62.9%	68.8%
Saké	0.3%	0.3%	0.3%	0.2%	0.2%

The following table shows detailed sales of wine by volume and value (LCBO sales only).

Volume (000s litres)

Product Type	1997	1998	1999	2000	2001
Red Wine	23,106	25,570	27,875	31,012	34,100
White Wine	35,226	34,093	34,483	34,913	35,189
Rosé Wine	2,108	2,493	2,853	3,264	2,984
Sparkling Wine	4,035	3,969	4,121	4,704	3,894
Fortified Wine	3,602	4,083	3,349	3,373	3,457
Wine Coolers	1,094	1,004	1,019	947	868
Other Wine	3,627	3,336	3,820	3,968	5,358
VQA Wines*	2,494	2,534	2,718	3,158	3,659

Value ($000s)

Product Type	1997	1998	1999	2000	2001
Red Wine	223,586	258,225	296,921	347,051	390,289
White Wine	287,892	288,217	301,198	312,901	319,344
Rosé Wine	16,341	19,983	23,490	27,699	25,091
Sparkling Wine	44,099	46,598	52,373	70,310	52,914
Fortified Wine	33,143	40,035	32,277	32,995	34,691
Wine Coolers	4,923	4,660	4,812	4,454	3,970
Other Wine	21,072	16,382	26,106	30,024	42,858
VQA Wines*	27,671	31,146	34,827	41,259	47,770

* VQA wine sales are reported in a separate consolidated total and also within each wine product category.

Note: Sales figures of wine by volume and value exclude Private Stock sales. The wine cooler figure for 2000 has been restated to net out flavoured wine drinks from the cooler category.

The following table shows LCBO Spirits sales by country of origin for fiscal 2000-2001.

Spirits 2000-2001

Country Name	NET SALES	LITRES
Canada	846,377,487	51,043,872
Great Britain	148,580,427	5,657,119
U.S.A.	45,913,988	2,406,476
France	73,214,020	2,306,126
Ireland	47,501,768	1,754,472
Sweden	34,770,344	1,715,595
Italy	30,317,295	1,323,444
Mexico	26,902,349	955,481
Finland	10,673,494	495,471
Russian Federation	7,851,532	349,063
Poland	6,022,885	267,749
Germany	6,488,458	258,509
Barbados	4,099,767	181,076
Jamaica	4,561,167	173,482
Netherlands	3,477,193	170,679
Greece	3,359,431	153,791
Switzerland	2,386,886	79,454
South Africa	1,810,994	79,095
Cuba	1,420,206	56,261
Portugal	1,148,986	40,232
Bermuda	1,082,158	37,642
Spain	811,909	34,528
Croatia	740,030	28,126
Hungary	524,542	24,304
Puerto Rico	525,112	22,856
Ukraine	432,011	16,600
Lebanon	368,771	14,286
Bahamas	301,868	13,718
Denmark	326,489	13,134
People's Republic of China	252,057	13,131
Austria	322,706	8,631
India	181,489	7,822
Chile	178,464	7,205
Brazil	95,851	4,884
Guyana	139,294	3,935

Spirits continued

Israel	90,478	3,534
Belgium	95,802	2,888
Philippines	23,012	1,058
Georgia	41,256	984
Antigua	19,082	638
Australia	25,851	595
Norway	17,380	486
Trinidad	9,082	407
Czech Republic	9,175	378
Bulgaria	8,714	353
Venezuela	1,257	68
Peru	2,031	57
Macedonia	1,101	53
Haiti	226	7
Grand Total	**1,313,505,875**	**69,729,755**

The following table shows LCBO Wine sales by country of origin for fiscal 2000-2001.

Wine 2000-2001

Country Name	NET SALES	LITRES
Canada	212,171,082	27,382,135
France	193,522,068	17,396,846
Italy	136,036,416	13,488,372
U.S.A.	97,562,116	8,466,644
Australia	79,219,613	5,642,180
Chile	37,739,151	3,638,220
Germany	19,971,395	1,983,204
Portugal	20,684,341	1,735,678
Spain	18,492,110	1,511,838
South Africa	13,073,072	1,278,733
Greece	5,134,720	664,490
Argentina	5,172,339	530,580
Hungary	3,619,334	468,480
Bulgaria	3,249,792	425,473
Great Britain	1,872,630	347,416
New Zealand	5,313,502	341,582
Croatia	773,354	98,186
Israel	793,471	77,569
Austria	518,597	46,232
Federal Republic of Yugoslavia	314,849	40,192
Romania	281,050	34,464
Macedonia	259,731	32,900
Mexico	332,601	32,451
Denmark	317,736	29,117
Jamaica	253,424	29,061
Slovenia	182,981	24,752
Poland	252,689	17,836
Uruguay	164,331	13,344
Republic of Moldava	131,774	12,655
Japan	111,646	11,791
Morocco	88,477	8,489
Cyprus	58,200	8,142
Turkey	54,927	6,827
Czech Republic	41,235	6,441
Algeria	37,025	4,669
Georgia	49,491	4,450
Lebanon	143,228	3,897
Switzerland	65,949	3,148
Belgium	11,738	657
Malta	5,661	579
People's Republic of China	741	54
Grand Total	**858,078,587**	**85,849,774**

The following table shows LCBO Beer sales by country of origin for fiscal 2000-2001.

Beer 2000-2001

Country Name	NET SALES	LITRES
Canada	222,185,926	65,923,221
U.S.A.	56,626,708	19,700,828
Netherlands	54,155,396	13,122,564
Mexico	43,537,653	10,873,818
Germany	18,303,940	5,184,764
Great Britain	13,160,153	3,592,947
Ireland	11,416,531	2,712,082
Poland	6,640,575	1,973,546
Denmark	5,429,803	1,685,547
Czech Republic	3,132,340	914,216
Belgium	3,982,193	880,877
Japan	2,473,035	561,493
Jamaica	1,097,420	290,801
People's Republic of China	987,903	270,985
Trinidad	758,452	191,221
Singapore	513,755	157,408
Italy	528,156	138,700
Portugal	476,959	128,346
South Africa	358,822	110,176
New Zealand	336,015	92,749
Croatia	166,359	44,260
Greece	134,363	32,421
Philippines	89,520	26,986
Cuba	105,989	25,640
Spain	75,665	21,532
India	92,894	21,515
Slovakia	64,488	20,819
Ukraine	54,828	16,749
Cyprus	63,528	14,947
Kenya	55,207	14,738
Panama	32,454	8,871
France	52,696	6,843
Brazil	9,971	4,228
Israel	7,767	2,043
Lebanon	6,500	1,441
Norway	6,488	1,154
Austria	116	21
Grand Total	**447,120,568**	**128,770,497**

Note: Net volue represents net soles, excluding Private Stock sales. In fiscol 2000-2001, the LCBO sold products from 66 different countries.

Auditor's report

TO THE LIQUOR CONTROL BOARD OF ONTARIO AND TO THE MINISTER OF CONSUMER AND BUSINESS SERVICES:

I have audited the balance sheet of the Liquor Control Board of Ontario as at March 31, 2001 and the statements of income and retained income and of cash flows for the year then ended. These financial statements are the responsibility of the Board's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Board as at March 31, 2001, the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Erik Peters, FCA
Provincial Auditor

Toronto, Ontario
June 11, 2001

Balance Sheet As at March 31, 2001

Assets (in $000s)	2001	2000
Current		
Cash and cash equivalents	47,961	31,133
Accounts receivable, trade and others	15,649	13,114
Inventories	260,619	255,398
Prepaid expenses	6,086	9,079
	330,315	**308,724**
Long-term		
Capital assets (Note 4)	186,996	172,124
	517,311	**480,848**

Liabilities and Retained Income	2001	2000
Current		
Accounts payable and accrued liabilities	218,836	209,074
Current portion of accrued benefit obligation (Note 3)	4,202	1,358
	223,038	**210,432**
Long-term		
Accrued benefit obligation (Note 3)	26,329	10,794
Retained income	267,944	259,622
	517,311	**480,848**

Commitments and Contingencies (Notes 5 and 8)

See accompanying notes to financial statements.

Approved by:

Andrew S. Brandt
Chair and Chief Executive Officer

R.A. (Dick) Dolphin
Member; Chair, Audit and Governance Review Committee

Statement of Income and Retained Income

Year ended March 31, 2001

(in $000s)	2001	2000
Sales and other income	2,734,937	2,549,458
Costs and expenses		
Cost of sales	1,390,575	1,288,903
Retail stores and marketing	339,017	303,272
Warehousing and distribution	46,565	41,888
Administration	41,962	40,119
Amortization	40,546	29,582
	1,858,665	**1,703,764**
Net income for the year	876,272	845,694
Retained income, beginning of year	259,622	213,928
Workers Compensation Benefits (Note 3)	(17,950)	—
	1,117,944	**1,059,622**
Deduct: Dividend paid to Province of Ontario	846,000	795,000
Deduct: Payment to municipalities on behalf of the Province of Ontario (Note 9)	4,000	5,000
	850,000	**800,000**
Retained income, end of year	**267,944**	**259,622**

See accompanying notes to financial statements.

Statement of Cash Flows

Year ended March 31, 2001

(in $000s)	2001	2000
Cash Provided from Operations		
Net income	876,272	845,694
Amortization	40,546	29,582
Loss on sale of capital assets	192	920
	917,010	**876,196**
Non-cash balances related to operations		
Working capital	4,999	(15,198)
Accrued benefit obligation	429	—
	922,438	**860,998**
Cash used for investment activities		
Purchase of capital assets	(55,689)	(54,456)
Proceeds from sale of capital assets	79	13
	(55,610)	**(54,443)**
Cash used for financing activities		
Dividend paid to Province of Ontario	(846,000)	(795,000)
Payment to municipalities on behalf of the Province of Ontario	(4,000)	(5,000)
	(850,000)	**(800,000)**
Increase in cash during the year	16,828	6,555
Cash and cash equivalents, beginning of year	31,133	24,578
Cash and cash equivalents, end of year	**47,961**	**31,133**

See accompanying notes to financial statements.

1. Nature of the Corporation

The Liquor Control Board of Ontario (Board) is a corporation without share capital incorporated under the *Liquor Control Act*, R.S.O. 1990, Chapter L.18. The corporation is a government enterprise responsible for regulating the production, importation, distribution and sale of alcoholic beverages in the Province of Ontario. As an Ontario Crown Corporation, the Board is exempt from income taxes under Section 149(1)(d) of the *Canadian Income Tax Act*. The Board transfers most of its profits to the Province of Ontario's Consolidated Revenue Fund in the form of a dividend.

2. Significant Accounting Policies

(a) Basis of Accounting

The Board's financial statements are prepared in accordance with Canadian generally accepted accounting principles.

(b) Inventories

Inventories are valued at the lower of cost and net realizable value with cost being determined by the moving average cost method.

(c) Capital Assets

Major capital expenditures with a future useful life beyond the current year are capitalized at cost and are amortized on a straight-line basis according to their estimated useful lives, as follows:

Buildings	20 years
Furniture and Fixtures	5 years
Leasehold Improvements	5 years
Computer Equipment	3 years

Minor capital expenditures and the expenditures for repairs and maintenance are charged to income.

(d) Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amount of assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(e) Cash and Cash Equivalents

Cash and cash equivalents comprise cash, and highly liquid investments with original maturity dates of less than 90 days.

The Board's investment policy restricts short-term investments to high liquidity, high grade money market instruments such as federal/provincial treasury bills, banker's acceptances and term deposits.

(f) Employee Benefit Obligations

The Board provides pensions benefits to its employees through participation in the Public Service Pension Fund and the Ontario Public Service Employees' Union Pension Fund. These plans are accounted for as multi-employer defined benefit pension plans as the Board has insufficient information to apply defined benefit plan accounting. The expense represents the Board's contributions to the plans during the year. The cost of post-retirement, non-pension employee benefits are paid by Management Board Secretariat and are not included in the Statement of Income and Retained Income. Effective April 1, 2000, the Board also accrued Workers Compensation Benefits (see Note 3) and included in-year changes in the accrual in administration expenses. The accrued benefit obligation also includes an accrual for termination payments.

3. Workers Compensation Benefits

Effective April 1, 2000, the Board recognized its workers compensation obligation in the amount of $17.9 million which is not funded. This is the first year of recognizing this obligation in accordance with the Canadian Institute of Chartered Accountants' new recommendations for accounting for employee future benefits. The new recommendations have been adopted on a retroactive basis without restatement. The impact on prior years has been reflected as an adjustment to opening retained earnings. The current year's impact is included in administrative expenses. The recognized amount has been determined from actuarial calculations provided by the Workplace Safety and Insurance Board. At March 31, 2001, the Provision for workers compensation benefits totaled $17.2 million and is included in the accrued benefit obligation together with accrued termination payments of $13.3 million (1999 - $12.2 million).

4. Capital Assets

(in $000's)	2001 Cost	2001 Accumulated Amortization	2001 Net Book Value	2000 Net Book Value
Land	13,835	—	13,835	13,835
Buildings	281,718	182,541	99,177	81,871
Furniture and fixtures	35,736	27,645	8,091	6,512
Leasehold improvements	103,589	71,109	32,480	29,913
Computer equipment	84,748	51,335	33,413	39,993
	519,626	**332,630**	**186,996**	**172,124**

5. Lease Commitments

The Board is committed under operating leases on leased premises with future minimum rental payments due as follows:

	(in $000s)
2002	28,575
2003	25,080
2004	21,323
2005	18,428
2006	15,963
Thereafter	72,707
	182,076

6. Pension Plan

The Board provides pension benefits for all its permanent employees (and to non-permanent employees who elect to participate) through the Public Service Pension Fund (PSPF) and the Ontario Public Service Employees' Union Pension Fund (OPSEU Pension Fund) established by the Province of Ontario.

The Board's expense related to the PSPF and the OPSEU Pension Fund for the year was $9.8 million (2000 - $9.4 million) and is included in Costs and expenses in the Statement of Income and Retained Income.

7. Hedging

The Board has entered into forward foreign exchange contracts to manage the foreign exchange risk associated with its purchases from foreign suppliers. A forward foreign exchange contract is an agreement between two parties to set exchange rates in advance.

As at March 31, 2001 the Board had $1,469,069 (2000 - $1,441,000) forward foreign exchange contracts outstanding.

Credit risk is the risk that a party to a forward foreign exchange contract will fail to discharge its obligation and cause the Board to incur financial loss. The Board minimizes credit risk by only dealing with major Canadian Chartered banks and Canadian subsidiaries of major foreign banks.

8. Contingencies

The Board is involved in various legal actions arising out of the ordinary course and conduct of business. The outcome and ultimate disposition of these actions are not determinable at this time. Accordingly, no provision for these actions is reflected in the financial statements. Settlements, if any, concerning these contingencies will be accounted for in the period in which the settlement occurs.

9. Payment to Municipalities

The Board was directed by Cabinet to contribute $4 million in 2000-2001 (1999-2000 - $5 million) directly to municipalities, based upon a funding formula developed by the Ministry of the Environment (MOE). This contribution is to support MOE's waste diversion program. Cabinet further approved that $5 million be paid in each of the next five years.

10. Comparative Figures

The March 31, 2000 comparative figures have been reclassified where necessary to conform to the current year's presentation.

Board members

MEMBERS OF THE LCBO BOARD, LIKE THOSE OF OTHER PROVINCIAL GOVERNMENT AGENCIES, BOARDS AND COMMISSIONS, ARE APPOINTED BY THE SITTING GOVERNMENT THROUGH ORDERS-IN-COUNCIL. APPOINTMENTS, UP TO FIVE YEARS, ARE SOMETIMES RENEWED.

Andrew S. Brandt:
Appointed Chair and Chief Executive Officer February 6, 1991. Term expires February, 2003.

Re-appointed in 2000 for a fourth three-year term as Chair and CEO, Mr. Brandt came to the LCBO after a long and distinguished career in the private and public sectors. He began his public-service career in Sarnia, where he served on city council for almost a decade, including three terms as mayor. In 1981, he was elected to the Ontario Legislature as MPP for Sarnia and became, successively, Parliamentary Assistant to the Minister of Labour, Minister of the Environment, and Minister of Industry and Trade. In 1987, he was named Leader of the Ontario Progressive Conservative Party, a post he held until 1990. In the private sector, Mr. Brandt ran a successful wholesale and retail musical instrument business for many years. He is also an active and award-winning volunteer in several community organizations, including the United Way, Rotary Club, Kiwanis Club and Lambton College Foundation. One of Canada's top 200 CEOs, according to the *Financial Post* magazine, he was named Business Support Person of the Year by the Ontario Grape and Wine Festival in 1997. He has also been appointed an Officer of France's Ordre du Merite Agricole and a Chevalier in the Confrerie des Chevaliers du Tastevin, and was admitted to the roll of the Keepers of the Quaich in Scotland. In 2001, he was one of six finalists for the 18th Annual Marketer of the Year Award, given by the Toronto chapter of the American Marketing Association.

The Members of the LCBO Board, from left to right:
Thom A. Bennett, Dr. Merle A. Jacobs, John C. Hopper, R.A. (Dick) Dolphin and John S. Lacey.

Thom A. Bennett:
Appointed October 11, 2000.
Term expires October, 2003.

President and owner of Bennett Insurance Agency Ltd., Mr. Bennett is a seasoned senior executive with a proven business management background and specific expertise in the field of employee benefits. He has served as Chair of the Ontario Video Lottery Corporation and Vice-Chair of the Ontario Lottery Corporation, where he took part in a major restructuring program designed to enhance the corporation's efficiency and profitability. A resident of Ottawa, he sits on the Board of Directors of the University of Ottawa Heart Institute; has coached little league baseball in Nepean; has served as Secretary of the Kiwanis Club of South Ottawa; and was a Cub Leader with the Boy Scouts of Canada.

R.A. (Dick) Dolphin:
Appointed October 7, 1997.
Term expires October, 2003.

A Fellow of the Institute of Chartered Accountants of Ontario, Mr. Dolphin retired in 1997 from financial services giant KPMG, for whom he'd worked for 23 years. He spent many of those years as Managing Partner of its Thunder Bay office, practising his specialty of municipal finance. Mr. Dolphin spent six years as a director of the Thunder Bay Chamber of Commerce, including one year as President, and is immediate past-Chair and CEO of the Ontario Chamber of Commerce. He served on Thunder Bay's St. Joseph's Hospital Board in several capacities between 1986 and 1991, including a term as Chair of its Finance and Audit Committee. He was also a member of the Port Arthur Rotary Club from 1984 to 1997. Mr. Dolphin now resides in Peterborough, where he owns and operates the consulting firm Dick Dolphin & Associates. He is also Chair of City of Peterborough Holdings Inc. and is a Member of the Council for the Institute of Chartered Accountants of Ontario.

John C. Hopper:
Appointed September 8, 1997.
Term expires September, 2003.

A native of Ottawa, Mr. Hopper began work in automobile sales there in 1963. He moved to North Bay in 1971 to establish John C. Hopper Pontiac Buick, and is today President and Dealer Principal of Hopper Automobile Ltd., and President of Saturn of North Bay. He was a founding member of the North Bay Automobile Dealers Association and the Northern Ontario Automobile Dealers Association, and past-President of the Ontario Automobile Dealers Association. A former North Bay city councillor, he has a long history of community service: he is a member of the Masonic Lodge; a member and past-President of both the Rorab Shrine Club and North Bay Kiwanis Club; a member of the Northern Ontario Cancer Research Foundation; a member of the Board of Governors of Thorneloe University in Sudbury; and he chaired the $7,000,000 fundraising campaign for North Bay's new General Hospital, while also serving on its Advisory Board. He was the Kiwanis Club's Citizen of the Year in 1993. In 1998, he was elected a Mel Osbourne Fellow to the Kiwanis Foundation of Canada.

Merle A. Jacobs:
Appointed December 17, 1997.
Term expires December, 2003.

Dr. Jacobs began her career as a nurse, eventually becoming a nurse manager in the department of psychiatry at North York Branson Hospital. Over nearly 30 years in the field, she has also pursued her education, and has now completed a Diploma in Nursing, a Bachelor of Arts degree, a Master's, and a Ph.D. in Sociology at York University. Her professional experience and studies have shared a focus on mental health, as does much of her extensive volunteer work. She has maintained her skills as a Registered Nurse by working at the Women's Inpatient Unit of the Centre for Addiction and Mental Health. She has also served on the Board of Toronto's Queen Street Mental Health Centre and is an executive member of the Registered Nurses Association of Ontario's Mental Health Interest Group. She is a director of Roots Cultural Foundation and Royal Business Training Centre and teaches at Ryerson Polytechnic University and York University. As a practising nurse psychotherapist and owner of The Lawrence Centre, Dr. Jacobs has also developed her business planning and budgeting skills, as well as her knowledge of human resources issues.

John S. Lacey:
Appointed June 26, 1996.
Appointed Vice Choir June 25, 2001. Term expires June, 2002.

Mr. Lacey is a veteran of the retail, hospitality and communications industries, with nearly 35 years of experience with companies such as Oshawa Group Ltd., WIC Western International Communications Ltd., Scott's Hospitality Inc., Molson, Loblaws, and the Holiday Inn and Marriott hotel chains. Now Executive Chairman of Loewen Group Inc., Mr. Lacey is a graduate of the Harvard Business School who emigrated to Canada from South Africa in 1978 and became a Canadian citizen in 1983. Mr. Lacey is also a director of Telus and Clarica, and Chairman of Doncaster Racing Ltd. His community interests include the Centre for Studies of Children at Risk, which is affiliated with McMaster University and Chedoke-McMaster Hospitals.

LCBO useful facts

(FOR THE FISCAL YEAR ENDED MARCH 31, 2001, UNLESS OTHERWISE NOTED)

The Marketplace

601	Number of LCBO stores serving communities across Ontario
107	Number of LCBO agency stores serving Ontario communities without large enough populations to support a regular LCBO store
847	Number of Beer Stores, Ontario winery stores, on-site distillery and brewery outlets and privately-operated duty-free stores in Ontario
44.2	Percentage share of Ontario beverage alcohol market, in dollar value, held by the LCBO
$7.2 billion	Total estimated value of Ontario's beverage alcohol market
$406 million	Estimated value of Ontario's illegal alcohol market

Our Stores

77	Number of LCBO stores offering more than 2,500 brands for sale
194	Number of LCBO stores offering 1,500-2,500 brands for sale
165	Number of LCBO stores offering 1,000-1,500 brands for sale
144	Number of LCBO stores offering 500-1,000 brands for sale
21	Number of LCBO stores offering fewer than 500 brands for sale
12,049	Number of product tastings conducted in LCBO stores
7	Number of days per week most LCBO stores are open
336	Number of perfect 100 per cent scores received by LCBO stores from mystery shoppers
1	Percentage of customers in a February, 2001 survey who said they were dissatisfied with service in LCBO stores
88.8 million	Total number of transactions in LCBO stores
23.3	Percentage of all LCBO transactions paid by debit card
20.9	Percentage of all LCBO transactions paid by credit card

Our Financial Performance

$2.7 billion	The LCBO's net sales and other income
$850 million	Dividend the LCBO transferred to the Government of Ontario for 2000-2001 (excluding taxes)
$3.9 billion	Amount the LCBO has transferred the last five fiscal years combined (excluding taxes)
321	Percentage return on taxpayers' equity
32	The LCBO's profit margin, expressed as a percentage
17.1	The LCBO's operational expenses as a percentage of net sales for 2000-2001
$255 million	Amount the LCBO transferred to the provincial government in Provincial Sales Tax (PST) in 2000-2001
$357 million	Amount the LCBO transferred to the federal government in GST, excise taxes and customs duties
$28 million	Amount the LCBO spent on capital improvements to its stores (renovations, relocations, repairs, etc.)

Statistical Insert

FOR LCBO ANNUAL REPORT, FISCAL 2000-2001

Product Listings

Domestic	1997	1998	1999	2000	2001
Canadian Whisky	145	160	168	158	163
Canadian Blended Rums	95	112	123	105	109
Canadian Gin	21	20	22	22	19
Canadian Vodka	69	70	75	70	75
Canadian Brandy	7	6	6	6	8
Canadian Blended Brandy	8	9	9	12	8
Canadian Spirit Coolers	45	56	46	51	64
Fruit Spirits	2	1	1	0	0
Miscellaneous Liquors	7	22	23	24	27
Canadian Liqueurs	52	48	53	55	56
Ontario Wines	490	465	477	474	448
Ontario Wine Coolers	10	5	4	5	7
Other Canadian Wines	21	27	39	43	32
Canadian Cider	12	21	18	14	12
Canadian Beer (incl. Beer Coolers)	330	346	385	403	407
Alcohol	0	3	4	3	3
Miniatures	9	6	6	9	7
Bitters	3	3	3	3	3
	1,326	**1,380**	**1,462**	**1,457**	**1,448**

Imported	1997	1998	1999	2000	2001
Scotch Whisky	108	127	135	108	119
Irish Whiskey	6	8	10	11	10
American Whiskey	17	21	21	21	22
Gin	13	14	16	17	15
Rum	14	18	16	20	29
Vodka	31	38	41	47	53
Tequila	12	9	10	19	23
Brandy	66	72	107	100	101
Fruit Spirits	2	4	2	3	3
Miscellaneous Liquors	53	67	78	86	96
Liqueurs	116	134	135	125	127
Wines	936	958	1,080	1,187	1,111
Beer and Saké	212	210	216	256	276
Miniatures	22	19	20	18	28
Coolers	18	9	7	11	7
Bitters	8	10	10	10	10
Total Regular Listings	2,960	3,098	3,366	3,496	3,478
Vintages Wines and Spirits	2,744	3,037	3,235	3,569	3,108
Duty-Free Listings	205	213	210	235	212
Consignment Warehouse and Private Stock	4,573	5,240	5,241	6,106	6,225
Total Product Listings	**10,482**	**11,588**	**12,052**	**13,406**	**13,023**

Note: Product listing figures for Consignment Warehouse and Private Stock are estimates based on invoices produced by Specialty Services. The wine cooler figure for 2000 has been restated to net out flavoured wine drinks from the cooler category.

Sales Channel Summary (value in $000s)

LCBO	1997	1998	1999	2000	2001
Retail Sales	1,923,750	2,022,638	2,209,024	2,390,949	2,556,340
Licensee Sales	314,652	347,083	370,496	396,879	419,731
Agency Sales	22,643	25,059	29,180	32,420	33,981
Duty-Free/Warehouse	17,349	17,318	20,696	34,454	35,943
Duty-Free/LCBO	12,156	13,367	13,028	303	0
BRI Sales	48,920	64,891	80,438	109,692	128,848
Other Sales	3,528	3,579	2,996	3,013	3,073
Total	**2,342,998**	**2,493,935**	**2,725,858**	**2,967,710**	**3,177,916**
Brewers Retail					
Retail & Licensee Sales	**2,075,664**	**2,114,467**	**2,214,918**	**2,324,225**	**2,381,289**
Winery Stores					
Retail Sales	**126,553**	**136,618**	**133,001**	**140,681**	**147,178**
Other Channels					
Legal:					
Cross-Border Exempt	141,372	153,479	136,213	155,818	208,614
Cross-Border Declared	2,524	3,054	3,862	3,124	2,658
Brew Pubs	1,467	1,737	1,652	1,950	1,624
Wine Pubs	2,904	3,952	4,233	4,722	4,647
U-Brew-Beer	151,482	149,534	157,633	163,959	174,425
U-Brew-Wine	502,050	549,952	585,077	611,892	608,692
Total	**801,799**	**861,708**	**888,670**	**941,465**	**1,000,660**
Homemade:					
Wine	43,823	44,071	45,807	40,597	30,702
Beer	16,122	16,847	17,760	18,473	18,323
Total	**59,945**	**60,918**	**63,567**	**59,070**	**49,025**
De-alcoholized Beer	**19,217**	**17,708**	**23,872**	**22,314**	**20,870**
Illegal:					
Smuggling	421,443	393,991	353,344	279,883	270,735
Wine Manufacturing	198,732	189,789	189,552	175,918	135,183
Total	**620,175**	**583,780**	**542,896**	**455,801**	**405,918**
Grand Total	**6,046,351**	**6,269,134**	**6,592,782**	**6,911,266**	**7,182,856**

Note: All figures above are shown in gross sales. The numbers included in the Other Channels category are estimates. Brewers Retail Inc. and Winery Store sales data were supplied by the Brewers of Ontario and individual Ontario wineries.

Retail Price Breakdowns

Spirits

Examples as at March 31, 2001 far 750 mL battle in Canadian Dollars	Imported U.S.	Imported Non - U.S.	Domestic
Payment to Supplier	$4.0542	$4.0542	$4.0542
Federal Excise Tax	$3.3198	$3.3198	$3.3198
Federal Import Duty	$0.0000	$0.0148	$0.0000
Freight	$0.1058	$0.2808	$0.0467
Total Landed Cost	**$7.4798**	**$7.6696**	**$7.4207**
LCBO Markup	$10.8532	$11.1209	$10.2406
LCBO Bottle Levy	$0.2175	$0.2175	$0.2175
LCBO Environment Fee	$0.0893	$0.0893	$0.0893
LCBO Rounding Revenue	$0.0140	$0.0203	$0.0143
Basic Price	**$18.65**	**$19.12**	**$17.98**
Goods and Services Tax	$1.31	$1.34	$1.26
Provincial Retail Sales Tax	$2.24	$2.29	$2.16
Consumer Price	**$22.20**	**$22.75**	**$21.40**

Revenue Distribution

Supplier (including freight)	$4.16	$4.34	$4.10
Government of Canada	$4.63	$4.67	$4.58
Government of Ontario	$13.41	$13.74	$12.72

Wines

Examples as at March 31, 2001 far 750 mL battle in Canadian Dollars	Imported U.S.	Imported Non - U.S.	Domestic 100% Ont.
Payment to Supplier	$2.6400	$2.6435	$2.6587
Federal Excise Tax	$0.3842	$0.3842	$0.3842
Federal Import Duty	$0.0000	$0.0281	$0.0000
Freight	$0.2669	$0.4157	$0.0000
Total Landed Cost	**$3.2911**	**$3.4715**	**$3.0429**
LCBO Markup	$2.1063	$2.2218	$1.7649
LCBO Wine Levy	$1.1250	$1.1250	$1.1250
LCBO Bottle Levy	$0.2175	$0.2175	$0.2175
LCBO Environment Fee	$0.0893	$0.0893	$0.0893
LCBO Rounding Revenue	$0.0196	$0.0198	$0.0212
Basic Price	**$6.85**	**$7.14**	**$6.26**
Goods and Services Tax	$0.48	$0.50	$0.44
Provincial Retail Sales Tax	$0.82	$0.86	$0.75
Consumer Price	**$8.15**	**$8.50**	**$7.45**

Revenue Distribution

Supplier (including freight)	$2.91	$3.06	$2.66
Government of Canada	$0.86	$0.91	$0.82
Government of Ontario	$4.38	$4.53	$3.97

Beer

Examples as at March 31, 2001
for a case of 24 x 341 mL bottles
in Canadian Dollars

	Imported U.S.	Imported Non - U.S.	Domestic
Payment to Supplier	$7.4700	$10.1400	$10.2000
Federal Excise Tax	$2.2903	$2.2903	$2.2903
Federal Import Duty	$0.0000	$0.0655	$0.0000
Freight	$0.5248	$2.7080	$0.4312
Total Landed Cost	**$10.2851**	**$15.2038**	**$12.9215**
LCBO In-store COS	$4.9595	$4.9595	$4.9595
LCBO Out-of-store COS	$1.3422	$1.3422	$0.0000
LCBO Markup	$4.0920	$4.5162	$4.0920
LCBO Bottle Levy	$1.4404	$1.4404	$1.4404
LCBO Environment Fee	$0.0000	$0.0000	$0.0000
LCBO Rounding Revenue	$0.0237	$0.0170	$0.0320
Basic Price	**$22.14**	**$27.48**	**$23.45**
Goods and Services Tax	$1.55	$1.92	$1.64
Provincial Retail Sales Tax	$2.66	$3.30	$2.81
Container Deposit	$2.40	$2.40	$2.40
Consumer Price	**$28.75**	**$35.10**	**$30.30**
Supplier (including freight)	$7.99	$12.85	$10.63
Government of Canada	$3.84	$4.28	$3.93
Government of Ontario	$14.52	$15.57	$13.34
Container Deposit	$2.40	$2.40	$2.40

Note: COS refers to the LCBO's cost of service. The container deposit applies only to products which can be returned for a container refund.

Eleven Year Financial Performance Review

(value in $000s)

	2001	2000	1999	1998	1997
Statement of Earnings					
Sales and Other Income	$2,734,937	$2,549,458	$2,349,832	$2,160,843	$2,013,873
Cost of Sales	$1,390,575	$1,288,903	$1,165,849	$1,064,286	$988,386
Gross Profit	$1,344,362	$1,260,555	$1,183,983	$1,096,557	$1,025,487
Per Cent	49.16%	49.44%	50.39%	50.75%	50.92%
Operating Expenses	$468,090	$414,861	$374,558	$351,653	$324,457
Net Income	$876,272	$845,694	$809,425	$744,904	$701,030
Statement of Cash Flow					
Cash Flow from Operations	$916,324	$875,289	$834,465	$769,507	$723,197
Change in Working Capital	$6,114	($15,198)	($8,651)	($29,537)	$49,819
Cash Used for Investing Activities	($55,610)	($54,443)	($40,265)	($25,524)	($19,424)
Cash Used for Provincial Transfers	($850,000)	($800,000)	($780,000)	($745,000)	($730,000)
Decrease/Increase in Cash During the Year	$16,828	$5,648	$5,549	($30,554)	$23,592
Financial Position					
Current Assets	$330,315	$308,724	$275,774	$230,720	$256,209
Current Liabilities	$249,367	$221,226	$210,029	$179,175	$203,647
Working Capital	$80,948	$87,498	$65,745	$51,545	$52,562
Fixed Assets	$186,996	$172,124	$148,183	$132,958	$132,037
Total Assets	$517,311	$480,848	$423,957	$363,678	$388,246
Financial Ratios					
Profit Margin	32.26%	33.38%	34.80%	35.03%	35.11%
Return on Shareholders' Equity	321.42%	357.17%	406.31%	403.63%	352.13%
Current Ratio	1.32	1.40	1.31	1.29	1.26
Statistics					
Inventory Turnover	5.25	5.21	5.38	5.53	5.02
Number of Permanent Employees	3,174	3,074	3,014	2,934	2,828
Sales per Employee	$855,175	$824,206	$771,623	$724,866	$706,079
Number of Stores	601	602	600	596	595
Number of Regular Products Listed	3,478	3,496	3,366	3,098	2,960

1996	1995	1994	1993	1992	1991
Statement of Earnings					
$1,909,804	$1,808,518	$1,764,731	$1,786,479	$1,833,386	$1,936,710
$919,268	$858,190	$832,106	$841,060	$851,539	$967,221
$990,536	$950,328	$932,625	$945,419	$981,847	$969,489
51.87%	52.55%	52.85%	52.92%	53.55%	50.06%
$323,819	$313,029	$333,716	$332,953	$332,439	$326,682
$666,717	$637,299	$598,909	$612,466	$652,458	$652,669
Statement of Cash Flow					
$687,663	$655,198	$619,979	$635,298	$675,162	$672,558
$9,659	$5,473	($15,824)	($8,694)	$6,162	$48,775
($26,256)	($26,895)	($14,753)	($21,075)	($25,754)	($29,751)
($680,000)	($630,000)	($585,000)	($615,000)	($675,000)	($650,000)
($8,934)	$3,776	$4,402	($9,471)	($19,430)	$41,582
Financial Position					
$239,516	$229,541	$201,204	$192,955	$207,155	$231,212
$160,727	$132,159	$92,813	$104,789	$118,212	$116,677
$78,789	$97,382	$108,391	$88,166	$88,943	$114,535
$134,780	$129,470	$120,474	$126,790	$130,564	$131,161
$374,296	$359,011	$321,678	$319,745	$337,719	$362,373
Financial Ratios					
35.33%	35.61%	34.24%	34.36%	36.04%	33.96%
302.76%	285.63%	269.90%	281.94%	280.50%	266.53%
1.49	1.74	2.17	1.84	1.75	1.98
Statistics					
5.07	4.92	5.02	4.70	4.72	4.79
2,803	2,824	2,743	3,100	3,233	3,305
$673,273	$633,656	$637,678	$574,998	$560,185	$581,445
596	597	600	611	618	621
3,149	3,053	2,824	2,737	2,787	2,601

LCBO

The Source for Entertaining Ideas

Products and Pricing

14,589	Total number of products available through LCBO stores, catalogues and private ordering service
3,108	Number of new VINTAGES products offered in stores and through the *Classics Catalogue*
66	Number of countries from which the LCBO bought products
957	Number of products discounted by up to 20 per cent through the LCBO's Limited Time Offer program
1,283	Number of products that carried a "value-add" bonus item
2,060	Number of products with bonus AIR MILES Rewards
81	Percentage of domestic spirits prices made up of federal and provincial taxes, levies and markups
64	Percentage of domestic wine prices made up of federal and provincial taxes, levies and markups
57	Percentage of domestic beer prices made up of federal and provincial taxes, levies and markups

Our Employees

3,174	Number of permanent full-time LCBO employees
3,123	Number of casual employees working in LCBO stores at fiscal-year end
129	Number of LCBO product consultants available to offer expert advice to customers
5,061	Number of LCBO Retail staff who have passed the highest level of our three-level Product Knowledge Course to date
2,242	Number of LCBO Retail staff who received training to help prevent service to minors or people who appear intoxicated
9,187	Number of LCBO Retail staff who have received responsible service training to date
119,254	Number of calls handled by LCBO Infoline officers
4,317	Number of e-mails handled by LCBO Infoline officers

Our Fundraising

$105,000	Amount donated by LCBO employees to the United Way in calendar 2000
$306,474	Amount raised for charity through donation boxes in LCBO stores in calendar 2000 (Note: This does not include funds raised for local charities in January and June, or funds raised by the Royal Canadian Legion in November.)

Social Responsibility

1,148,646	Number of customers challenged for proof of age or sobriety by LCBO staff
79,844	Number refused service by LCBO employees
3,597	Number of BYID tamper-resistant identification cards issued by the LCBO
15,518	Total number of BYID cards issued as of March 31, 2001

Quality Assurance

330,000	Number of product tests carried out by LCBO's Quality Assurance Laboratory
347	Number of products rejected by Quality Assurance for health concerns, consumer safety issues and other quality control problems
663	Number of seized products tested for enforcement purposes by Quality Assurance
1	Number of product recalls issued by Quality Assurance

For information about LCBO products and services,
visit us on the Internet at:
www.lcbo.com and www.vintages.com

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